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ABSTRACT

Although minority groups make up 17 percent of the population, they control only a small fraction of the productive resources of the nation. The President's Advisory Council on Minority Business Enterprise was created to develop a national program to define minority enterprise goals and to design strategies for attaining them. This report presents the Council task forces' findings and recommendations for broadening minority business opportunities, expanding capital resource ownership, and providing business training, management development, and technical assistance. (MF)

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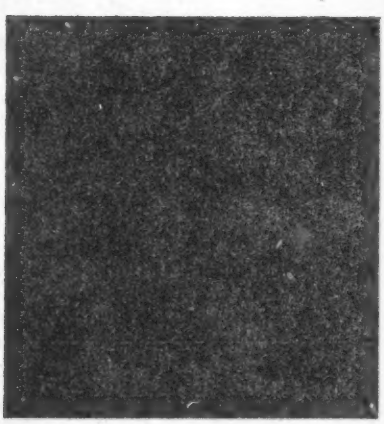

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MINORITY ENTERPRISE AND EXPANDED OWNERSHIP: BLUEPRINT FOR THE 70's

Submitted to President Richard Nixon
and Secretary of Commerce Maurice H. Stans
by
The President's Advisory Council on
Minority Business Enterprise

JUNE 1971

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To President Nixon and Secretary Stans:

I have the honor to transmit the final report of the Advisory Council on Minority Business Enterprise containing its findings, conclusions, and recommendations.

By direction of the Council

Sam Wyly

Sam Wyly, Chairman

Foreword

The Advisory Council on Minority Business Enterprise was created on March 5, 1969, by President Nixon, in Executive order 11458. It has sought to develop a blueprint for a national strategy that would ensure that minorities assume a significant role in developing, owning, and managing viable businesses during the decade of the seventies. Sixty-three persons, representing various minority communities and the majority business and financial communities, were initially appointed to the Council. The membership was raised to eighty-five in 1970.

During the past year, the Council, under the leadership of its chairman, Sam Wyly, assisted by vice-chairman Berkeley Burrell, and its staff have consulted with hundreds of minority businessmen, economic development leaders, economists, governmental officials, and corporate and financial leaders. The staff's experience and research, together with the collective knowledge and practical experience of the Council members, have provided a valuable input to this report. At the outset, the Council divided itself into five task forces: National Strategies and Goals; Business Opportunities; Expanded Participation; Finance; and Management and Technical Assistance. Each task force was assigned a chairman, from among the Council membership, and an associate director, with staff coordinating responsibility.

The Task Force on National Strategies and Goals was directed to define minority enterprise goals for the nation as a whole, over the next decade, and to design appropriate strategies for attaining these goals. It has sought to formulate a more effective delivery system, both in Washington and at the local level, for getting available resources to minority enterprises.

The Task Force on Business Opportunities addressed itself to the issue of broadening the spectrum of business opportunity. It has sought out situations which may offer new and/or expanding markets to minority entrepreneurs, proposing a number of methods through which minority entrepreneurs could profitably develop such business opportunities.

Recognizing that the great majority of Americans do not aspire to become entrepreneurs, the Task Force on Expanded Participation was directed to explore additional ways of involving minorities in capital resource ownership. Such mechanisms as savings and loan associations, employee stock participation plans, credit unions, community investment groups, and community development corporations have been studied and evaluated in this context.

The Task Force on Finance has examined means of facilitating the flow of public and private capital in the development of minority-owned businesses. Federal credit guarantee mechanisms have been studied in an effort to improve their effectiveness in funneling the flow of private capital to minority enterprises. Ensuring the rapid growth of existing minority-owned financial institutions and encouraging the rapid development of new financial institutions have been significant concerns of this task force.

Opportunities for formal business training and on-the-job training have been areas of inquiry for the Task Force on Management and Technical Assistance. In addition to addressing itself to the shortage of well-trained entrepreneurs and managers, this group has explored ways to supply management and technical assistance to minority enterprises in order to meet specific or recurring business problems.

The composite report consists of two major parts: a summary and recommendations of the Council's findings and an Appendix containing background and supporting materials. The summary and recommendations section is divided into seven major sections: Framework for Action; Rationale for a National Minority Enterprise Effort; the Environment for Minority Enterprise; Detailed Recommendations for Implementing a Successful Minority Enterprise Program; as well as a discussion of a workable form for a resource delivery system, at both federal and local levels. There is also a summary of the report findings and a section for comments by individual Council members.

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I. Framework For Action

It is the consensus of the Council that any minority enterprise development plan must be *comprehensive* if it is to accomplish the overall goal of economic integration. Indeed, if it is to be successful, it will involve the business and community organizations at every level. Essentially, however, despite the elaborate combination of forces that will be called into play, the proposed delivery network will succeed or fail at the grassroots level.

The basic eleven recommendations.

The Council believes that the eleven recommendations that form the main body of the section are crucial to the initiation of an effective minority enterprise program and will also serve to provide the framework for implementation of the total program. Although the eleven are key building blocks, the total recommendations embodied in this report are necessary for a comprehensive and meaningful program for the decade of the seventies. Broadly based economic development requires the systematic relationship of a variety of financial and management programs.

Role of the *private* sector as crucial.

The importance of the private sector [1] in the implementation of this program cannot be overstressed. It must assume the role of joint partner with the government. The Council feels that various financial incentives, including guarantees, grants and tax incentives can be employed to motivate the private sector to effectively support the recommended projects. This would have the additional benefit of keeping within limits the number of federal employees added to the payroll.

STRATEGIC GROWTH OPPORTUNITIES

Any economic development plan for the minority community will involve economic integration. One of its goals should be to encourage the contribution of the minority business sector in the overall development of the minority community.

Marginal business not the answer.

The perpetuation of the marginal operation, so often characteristic of business in the minority community, should not be viewed as an opportune route to the goal of economic integration. Rather, the Council feels that minority businessmen should be encouraged to enter businesses with a higher growth and profitability potential, more advantageous to the entrepreneur and ultimately to the community.[2]

EXPANDED OWNERSHIP

Concept of "black capitalism" expanded.

Another important principle that should guide the implementation of this program is the expansion of the concept of "minority enterprise" (which grew from an earlier concept of "black capitalism") into the larger concept of "expanded ownership," while preserving the priority on minority ownership. Thus, the Council acknowledges the importance of providing a greater stake in the economic system for all socially and/or economically disadvantaged persons.

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[1] The phrase private sector is defined for this document as including all aspects of the nongovernmental community: business and industry, the minority groups, community, colleges and universities, professional and trade associations and foundations.

[2] The Presidential small business legislative package (S. 4316 and H.R. 16644) provides that the SBA should attempt to identify higher growth business opportunities in order to stimulate the more rapid growth of small business.

Increased minority ownership a national priority.

National Priority

1 Acknowledging the urgency of the problem, the Council recommends that substantially increased minority ownership of economic resources in urban and rural areas be made a national priority for the decade of the seventies. This will require a significant commitment of resources from *both* public and private sectors. The Council believes that many of the economic problems of minority and non-minority small businessmen are essentially the same. Mindful of this, the Council recommends a strategy designed to embrace the solution to their common problems.

President's Small Business Program

2 Since important parts of the national commitment the Council is recommending were represented in the President's congressional legislative package embodied in H.R. 16644 and the similar Senate bill, S. 4316,[3] the Council recommends that a similar legislative package be introduced during the 92d Congress and speadily enacted.

New powers for the SBA.

Embodied in this legislation are a number of important new powers for the Small Business Administration, including the right to participate in loans with organizations not usually engaged in the lending business, and the right of precertified organizations to make SBA-guaranteed loans without prior approval (subject to post audit). Interest subsidies, the extension of management and technical assistance grant power, as well as the right to establish non-profit MESBIC's[4] the creation of a secondary money market for MESBIC securities, and the right to guarantee surety bonds and to conduct research, identifying higher growth business opportunities and lowering the failure rate for small business, are also encompased in the proposed legislation.

Training and education are the keys in many fields.

Management and Business Training

3 A need for education and training exists in many areas, involving both technical and management skills. It is the feeling of the Council that both formal and on-the-job training should receive substantially increased support by the public and private sectors.[5]

A network of 100 local delivery centers.

One Hundred Local Delivery Centers

4 Basic to the council's program is the enactment of one hundred local level delivery centers which should be created over the next three years to provide "one-stop packaging" for the delivery of financial, managerial, and technical resources at the community level. Located in both urban and rural target areas, these centers would serve to bring together public, private, and minority representatives who would be able to coordinate the resources of their respective sectors. Private sector support for these one hundred centers should be mobilized in a similar fashion to that of the National Alliance of Businessmen (NAB). Such an organization could serve as the national focus for private sector commitments to minority enterprise. The local centers would build both on existing community programs, where available, and create new organizations as needed.

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[3] The full text of this legislation is included in Appendix F. The Senate bill was passed during the 91st Congress, but the House did not act on H.R. 16644.

[4] MESBIC, Minority Enterprise Small Business Investment Company, is a special version of the SBIC (Small Business Investment Company), a type of federally licensed (SBIC). Small Business Investment Company. (See the Small Business Investment Act of 1958.)

[5] There are several existing programs which, though characteristically underfinanced, can provide initial models for these expanded management and business education programs, including the Title I program of the Higher Education Act of 1969. See the discussion of the Title I program in Appendix Document.

Federal Restructuring

5 While the Council recognizes that the minority and non-minority small businessmen have much in common, and that much is to be gained by a strategy designed to assist in the solution of their common problems, the Council also acknowledges the unique dilemma of the minority businessman, beset by racial and ethnic prejudices which, added to his business problems, have presented almost insurmountable obstacles to business development.

Options for federal government restructuring.

In cognizance of this, the Advisory Council recommends that serious consideration be given to federal restructuring that will more effectively utilize federal resources. Our suggestions take the form of three options offered to the President. These encompass:

The creation of an Agency for Expanded Ownership (AEO), a new independent federal agency, which would be formed by combining SBA, EDA,[6] OMBE[7] and selected programs in OEO and the Department of Agriculture.

The second option provides for the formation of an Agency for Expanded Ownership with a minority enterprise division spun off as a quasi-public corporation.

A third alternative would be to create the AEO in the Department of Commerce.[8]

Federal Resource Commitment

$930 million commitment of funds.

6 A substantial federal resource commitment, totaling approximately $930 million for the initial three-year period, is needed to ensure progress toward the goal of significant minority enterprise development. As much as two-thirds of this $930 million total would be available from existing programs. The recommended allocation of funds, over a three-year period, would include $500 million for financial assistance; $160 million for business and management education; $170 million for management and technical assistance programs; $60 million for the one hundred target area delivery systems; and $40 million for experimental and demonstration programs.

Indian Development Program

Recommended development program.

7 The Council recommends the implementation of the President's program for American Indian economic development and the passage of the American Indian Development Bank Act. Major portions of this program include a larger degree of self-determination without termination of the historic relationship between the federal government and the Indian peoples; Indian control over their education programs; a substantial increase in economic development and health care funds; the extension of the Bureau of Indian Affairs' responsibility to Indians dwelling in urban areas; the establishment of an independent Indian Trust Counsel Authority; and the upgrading of the authority of Commissioner of Indian Affairs to the level of an Assistant Secretary of the Interior.[9]

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[6] The Economic Development Administration (EDA) is a division of the Department of Commerce, headed by an assistant secretary. Established by the Public Works and Economic Development Act of 1965, it provides for federal financial, technical and planning assistance to help disadvantaged communities share in the general prosperity. Its budget for fiscal year 1970 was approximately $275 million.

[7] The Office of Minority Business Enterprise (OMBE) was established by Executive Order 11458, March 5, 1969, to coordinate and mobilize public and private sector community enterprise programs. Organizationally, OMBE is located in the Department of Commerce.

[8] The second and third options would explicitly require new legislation. The first option could be accomplished by Executive order and/or by directives under the powers granted by the Executive Reorganization Act of 1949, if the AEO were formed around SBA.

[9] The full text of the President's program for American Indian economic development and the American Indian Development Bank Act are included in Appendix F.

Need for minority owned and controlled financial institutions.

Increased Ownership of Financial Institutions

8 The Council recommends that all necessary steps be taken to increase minority ownership and community organization participation in financial institutions such as commercial banks, savings and loans associations, mutual banks, investment banks, and insurance companies.

To this end, the Council advises that such federal and state governmental officials as the Comptroller of the Currency and members of the Federal Home Loan Bank Board be urged to increase the number of new financial institutions organized, managed, and controlled by minority Americans.

Generation of community leadership.

Greater Commitment to Community Development

9 Basic to the program proposed herein is the premise that organizations providing an opportunity for wider minority community involvement, including cooperatives, community development corporations, and credit unions, are a potentially important means of developing administrative and managerial leadership. Thus we recommend a greater commitment of public and private resources to develop such organizations.

More information needed.

Need for Data Base

10 The Council advocates that federally funded research be undertaken to provide an adequate data base for the implementation, operation, and evaluation of this and other programs.[10] The President's small business legislative package places particular emphasis on research to identify businesses "built around innovations promising rapid growth . . . (and) identifying the nature and cause of small business failure." The Council recognizes the importance of identifying potential areas of higher growth for business development and of assisting minority entrepreneurs in expanding existing businesses and establishing new ones in such areas. The Advisory Council believes that the proposed research program, coupled with an effective information dissemination program, can make data available that will identify more viable business opportunities than have heretofore been available to the minority entrepreneur.[11]

Purchasing power potent factor.

Increased Use of Public and Private Sector Purchasing Power

11 The Advisory Council recommends that purchasing power be utilized, by both public and private sectors, to strengthen existing minority entrepreneurs and to encourage new minority enterprise. In effect, the Council is advocating that both sectors increase their use of minority firms as vendors of goods and services. The individual consumer should be made more aware of minority-produced and minority-supplied goods and services, and be encouraged to purchase such goods and services. The influence of the public sector in creating new market areas, particularly since World War II, is difficult to over emphasize.

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[10] The best, perhaps the only data base presently available, is that compiled by the SBA. This SBA data base provided the Council with important empirical data, quite helpful in its deliberations.

[11] See. S. 4316 and H.R. 16644, Section 103.

II. Rationale For A National Effort

Economic inequities legacy of centuries.

High on the list of priorities for the decade of the seventies is the provision of a substantially increased stake in the American economy for members of minority groups. This will come about through expanded opportunities for ownership of economic resources. Enormous economic inequities, the product of centuries of disregard, discrimination, and institutional racism still exist, although the public and private sectors have moved to curtail active discrimination and the exclusion of minorities from economic opportunity. A major, long-term commitment of resources, energy, and imagination is required if America is to remedy this centuries old injustice.

Minimal control of capital.

The seventeen percent of the population who are American Indian, black, or of Spanish-speaking ancestry control only a tiny fraction of the productive resources of the nation. Current figures place minority-owned businesses variously between 55,000 and 165,000, from a total of more than 5.5 million, or between one and three percent of the total business community.[1] Contributing to the picture is the nature of many of these minority-owned enterprises. In the main, these are small retail or service establishments, largely lacking in capital assets. As such, their control of capital is only a fractional amount of their one to three percent of business ownership.[2] In fact, the combined assets of all minority banks is $350 million, less than ten percent of the assets of any one of the twenty largest non-minority banks, and the combined assets of all minority-owned insurance companies is less than 0.2 percent of the industry total.[3] The continuing disparity of capital accumulation has significantly hampered the development of the minority community.

Economic disparities more obvious.

While all the prerequisites for economic development are not fully understood, we do know that the development of a viable business and capital base within the minority community is essential. The time is ripe. Throughout the nation's minority communities, there is a growing demand for sufficient economic independence to participate effectively in the system. Too often, a lack of access to the power structure breeds an atmosphere of frustration and anger. Bombarded hourly by television and other media displaying the wealth of our society, the disadvantaged, particularly the poor, cannot help but be aware of the discrepancy between their economic condition and that of the larger society.

These feelings, which are common to all minority groups, are rooted in centuries of exclusion from the institutions of our society which exercise significant power. Blacks, Americans of Spanish-speaking ancestry, and American Indians are all too frequently not represented when decisions are made in the high councils of government or in corporate board rooms.

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[1] U.S. Small Business Administration, Office of Planning, Research and Analysis, *Distribution of Minority-Owned Businesses*, unpublished report prepared by Albert Reiss (Washington, D.C.: SBA, June 1969), p. 10.

[2] Ibid., and Flournoy Coles, *An Analysis of Black Entrepreneurship in Seven Urban Areas*, research performed under the auspices of the National Business League (Washington, D.C.: NBL, November 1969).

[3] Thomas Gleason, "Opening Remarks," Special Meeting of the American Bar Association, *Business in the Ghetto* (April 11 and 12, 1969), pp. 5-12, and "Blacks Build Up Their Bank Power," *Business Week* (December 5, 1970), pp. 92-94.

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Angers can be channeled.

It is only within the relatively recent past that spokesmen for these disadvantaged minorities have disturbed the public calm with angry outbursts. Implicit in this angry rhetoric, however, is the hopeful sign that American blacks, American Indians and Americans of Spanish-speaking ancestry are becoming increasingly determined to participate in the larger society, through the exercise of their own economic, social, and political institutions. Consequently, they wish to bargain from a position of personal strength and dignity, with the social ills that afflict their people and their environment. The traditional assumption of their dependency on the charity of the Anglo-white majority is no longer valid.

The President summed it up.

The significance of this determination was accentuated by President Nixon in his "Bridges to Human Dignity" radio address. "What we need is to get private enterprise into the ghetto, and put the people of the ghetto into private enterprise—not only as workers, but as managers and owners. Then they will have the freedom of choice they do not have today; then the economic iron curtain which surrounds the black ghettos of the country will finally be breached."[4] The generation of minority enterprise, through expanded ownership of productive resources, would help to eliminate the feelings of exclusion that have traditionally plagued minorities.

Significant beginnings made

We recognize that substantial efforts to encourage minority enterprise developments have already been made by both public and private sectors. Federal agencies such as the Small Business Administration and the Economic Development Administration of the Department of Commerce have greatly expanded their programs along these lines. The Administration's action in creating the Office of Minority Business Enterprise (OMBE) has served to bring the situation into clearer focus, providing a basis for developing the means to accomplish significant objectives in the area of minority enterprise. Similarly, we approve the initiation of such programs as the Minority Enterprise Small Business Investment Companies (MESBIC's), 8(a) Subcontracting, and the Opportunity Funding Corporation (OFC).[5] These are all excellent beginnings, illustrating genuine commitment to the principle of minority enterprise development. Generous support has also been forthcoming from the private sector.

Success feeds success.

The very existence of a large number of thriving minority entrepreneurs would boost the self-confidence of minority group members. Visible evidence of success would have a healthy psychological impact on the community, creating a feeling among the citizenry that they, too, could make it within the system.

Successful minority enterprise must largely be the product of minority ingenuity and effort, fostered by self-reliance, not dependence. Unlike governmentally financed social welfare programs, the development of minority enterprise is a first step toward a long-term solution to the problem of poverty and exclusion. Built on independent economic participation, such a program could produce a great sense of psychological and financial security within the minority community.

Larger society would benefit too.

The psychological benefits of successful minority enterprise would not be restricted to the minority population. Such success would help to do away with the prejudices and stereotypes frequently entertained by Anglo-whites.

Economic development within the minority communities would increase the prosperity of the nation as a whole. And, as the minority community became more pro-

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[4] Richard M. Nixon, "Bridges to Human Dignity," an address by Richard M. Nixon on the CBS Radio Network, April 25, 1968.

[5] Section 8(a) of the Small Business Investment Act of 1958 provides that the SBA Administrator may enter into contracts with federal agencies to furnish goods and services, and arrange for the actual performance of these contracts by subcontracting the work to small business concerns. OFC, Opportunity Funding Corp., was established in June 1970 to ". . . use and adapt the proven tools of economic growth to stimulate the development of low income communities." See OEO, *Opportunity Funding: An Economic Development Demonstration Program* (Washington, D.C. OEO, 1970). See also Samuel Doctors and Sharon Lockwood, "The Opportunity Funding Corporation: An Analysis." *Journal of Law and Contemporary Problems* (Fall 1971).

ductive, it would become an increased source of federal, state, and local tax revenues. As more of the poor and disadvantaged were drawn into productive employment, the national burden of welfare and other supportive social services would be reduced.

Even without a national effort, minority enterprise will likely experience gradual growth over the next several decades. However, it is increasingly apparent that the nation cannot afford to wait. If the United States is to achieve an open society, in which every citizen is a full participant, a national effort must be made to telescope the process of economic development. The alternative is a continuation of the profound alienation of America's minorities from the nation's economic and social systems, with unfortunate consequences for all Americans.

The Administration has made a significant commitment.

In summary, the national minority enterprise effort can be envisioned as a catalyst which will speed the process of minority enterprise growth. Minority community organizations throughout the country are becoming increasingly aware of business development as a vehicle for meaningful participation. This has fired a strong desire in the minority communities to see rapid growth of minority enterprise. Meanwhile, the Nixon Administration has made a major commitment to promote the development of minority enterprise as a viable, significant scale. This commitment is shared by members of Congress in both parties. Further support has come from the private sector which has enthusiastically initiated numerous programs on its own; it is increasingly apparent that private-sector leadership will be a paramount element in the development of minority enterprise. Building on the initiatve already displayed by public and private sectors, the Council has identified additional steps which can forward these efforts and provide a comprehensive program for the decade of the seventies.

III. The Environment For Minority Enterprise

Obstacles have been difficult to overcome.

Members of minority groups have been discouraged from entering business by the absence of a historical experience and the general scarcity of business opportunities.[1] In addition, a characteristic lack of financial and managerial resources has impaired any willingness to undertake enterprise and its inherent risk. Furthermore, the lack of opportunity to participate in managerial/technical training has severely restricted the supply of entrepreneurs, managers, and technicians.[2] This type of training has generally not been available to minorities, and when it has, the weight of negative historical experience has diminished apparent access to it.

Financial aid has not been forthcoming.

Financial obstacles to minority business development have ranged across the business horizon. Equity capital has generally not been available for business formation due to the failure of minorities to accumulate savings.[3] The impoverished condition of minorities has made the accumulation of capital impossible; and when equity capital has been found, minorities have had difficulty attracting debt financing to augment it. Bias, stemming from preconceived as well as the real riskiness of minority loans, has diminished the capacity of the equity base to draw in debt money. What debt has existed, has characteristically been short-term, often resulting in serious cash flow problems, owing to rapid amortization schedules and high interest rates.

Minority businessmen have also had difficulty securing working capital, thus limiting their ability to offer credit terms to their customers, as well as an advantageous building-up of inventory. Often working capital has had to be acquired through factoring of accounts receivable at large discounts.[4] Traditional financing sources have not generally given enough attention to receivables and inventory, as appropriate collateral and trade credit have been characteristically scarce for minority businesses. The inability to get credit from suppliers has increased pressures on working capital, serving to restrict inventory development and credit sales.

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[1] The small number of black managers and proprietors testifies to their exclusion from business participation. In the category of "managers, officials of business, and proprietors," they comprise only 2.7 percent representation, and the meager total of 209,000. Whites in the same category total 7,286,000. Howard Samuels, former administrator of SBA in *Black Economic Development*. William Haddad and Douglas Pugh, eds. (Englewood, N.J.: Prentice-Hall, 1969), p. 62.

[2] Only the Atlanta University School of Business Administration has generally been open to blacks wishing to take an M.B.A. degree. The school awarded 346 M.B.A.'s between 1946 and 1969. All the other business schools in the country awarded less than 250 in the same period. For Mexican Americans the situation has been even worse, with Harvard Business School granting its first M.B.A. to a Mexican-American in June, 1970. Most other business schools have few, if any, persons of Spanish ancestry enrolled.

[3] ". . . (T)he total failure to build savings and convert them into risk capital is surely one of the outstanding defects of the ghetto economy." Theodore Cross, *Black Capitalism* (New York: Atheneum, 1969), p. 57.

[4] "The credit plight of the ghetto is aggravated by the bad press downtown banks command in the slum areas. Negroes are distrustful and suspicious of the money society. During 1967 hearings, a Senate Committee disclosed that only about 10% of Puerto Rican American businesses (usually food retail outlets— 'bodegas') have bank accounts; only 5% use any type of bank credit. A large number of them initially started in business with the financial help of loan sharks." Cross, *op. cit.*, page 57.

Need for specialized knowledge.

While it is generally accepted that assistance to minority businesses is essential, it is often maintained that efforts in the past, as a whole, have not been successful. Either aid has not been available in the quantity or variety to help business in a fully systematic way, or a specialist in one area finds himself deployed in an entirely different field. As a rule, general business knowledge is most common among volunteer consultants and it may not be adequate to handle specialized problems that may arise.

Volunteer programs not answer.

Another weakness in current assistance efforts may be due to a lack of effective communication between businessmen who look for help and the individuals who volunteer to give aid. A close continuing relationship between client and counselor is crucial to the success of their efforts, but such a relationship has been difficult to maintain in traditional volunteer programs. The frequent crises of day-to-day operations afflicting the minority businessman make quick access to assistance critical, and yet the volunteer nature of most assistance programs has made quick access difficult and sometimes impossible. Aggravating the situation is the failure to conceive of an "early warning system," which would monitor potential problems and encourage the formulation of preventive safeguards.

Training and education requires investment of both time and money.

The development of minority businessmen has also suffered from the average candidate's lack of available training time. Most minority businessmen do not have free time for night courses, much less for the full-time management training programs which are offered by business and professional schools. For these and other related reasons, strategic, long-term management development has not been extensively used. As a consequence, management skills have not been effectively "built into" business and the need for external support is a continuing one.

Established behavior blocks ways.

Minority businessmen have typically had great difficulty entering and developing new areas of business opportunity. They have suffered not only from racial discrimination, but from ingrown patterns of management and technical shortcomings. While high-growth business has become increasingly technologically-oriented, minorities have continued to suffer from inferior educational training and a lack of access to information resources. As business has moved from the central city to the more favorable climate of the suburbs, minorities have become more entrenched in the urban ghettos.

Not only have minorities been increasingly adversely affected by the changing demographic patterns, they have also suffered in the market place due to discrimination. A minority entrepreneur may lose sales because others of his race find status in buying from whites, while whites, traditionally, have not patronized minority-owned stores.[5] Where integration has taken place, it has led to increased competition for the minority market—to the detriment of the economy of the minority community.

Opportunities have been missed.

Finally, members of minority groups have not had sufficient access to business-related information, missing many opportunities to get in at the beginning of a promising new market area. Such opportunities are constantly being created and destroyed by "the market." Specific information identifying situations of opportunity has not been generally available to minority groups.

Hopeful signs.

Small Business Administration data indicate that SBA loans and loan guarantees to minorities have increased from ten percent of the total dollar volume in fiscal

[5] "The overwhelming majority of black businesses are individual proprietorships in the retailing and service sector. Most are 'mom and pop' stores, employing fewer than five people, and varying in value from $5,000 to $50,000. These stores consist mainly of eating places, beauty parlors, apparel, liquor, and second-hand shops. Such businesses are very high failure rate . . ." Joseph Kirchheimer, Christian Science Monitor. Quoted by John DeLorean in *Black Economic Development, op. cit.*, p. 9.

year 1968 to 22 percent in fiscal year 1970.[6] The dramatic increase in support of minority business by governmental agencies has had to overcome widespread dissatisfaction and disbelief among minorities who have experienced failure in the past with federal bureaucracy.

There is a need to communicate and effectively deliver the federal commitment to minority enterprise at the local level. Decentralization of the delivery system would be a meaningful step forward. By working closely with minority businessmen, the delivery system would be able to channel the efforts of the public and private sectors in the generation of minority business development. A decentralized delivery system would provide a flexible, locally responsive approach, geared to the changing needs and environment of minority enterprise. Such a system for transferring public and private resources to minority users has generally not been available.

The nation has heard but not listened.

Attitudes of minorities toward business and of non-minorities toward minority businessmen have suffered from a lack of understanding and communication on both sides. The private sector, as a whole, has not been sufficiently attuned to the needs of minority businessmen. Minority business has generally been viewed as "high risk business," rather than as a potentially valuable opportunity which happens to be minority owned. Financial institutions, trade suppliers, company purchasing agents and others have tended to be cursory in their evaluation of minority business, lumping all into the same "risk-pool." Likewise, minorities have been discouraged from entering into business by their perception of its risks and hazards. Without a strong, successful entrepreneurial tradition, too frequently minorities have approached the business world with mistrust and trepidation, choosing to enter familiar, localized, often marginal businesses at the sacrifice of growth potential and investment return.

The "safe" course offers least return.

THE IMPRINT OF HISTORY

Each group has unique history.

The unique historical experiences of Afro-Americans, Mexican-Americans, Puerto Ricans, Cuban-Americans, American Indians, Alaskan natives and other disadvantaged minorities are factors which cannot be ignored in shaping a national effort to produce substantial new entrepreneurial activity in each of these areas. Although some problems such as discrimination, have afflicted each of the minority communities, any worthwhile discussion of history must treat the experience of each respective minority group individually.

THE AFRO-AMERICANS

West Africa, a flourishing trade center.

Many whites have sought to explain the dearth of black-owned businesses by alleging that blacks lack entrepreneurial ability. This stereotype is strongly contradicted by the West African experience and by a number of very successful black-owned and managed businesses in this country.

West Africa was the source of the vast majority of slaves who were brought to the Americas. This same region today is a flourishing trade center with a strong business tradition. Huge African marketplaces, such as the one found in Onitsha, Nigeria, on the banks of the Niger, thrive on the business acumen of the West African merchant. Today, as through much of modern history, the West African trader has a reputation for being an unusually skilled entrepreneur. According to

[6] SBA supplied data for fiscal 1970. See also OMBE, *Report to the President on Minority Business Enterprise* (Washington, D.C.: U.S. Dept. of Commerce, June 1970), p. III-12-III-17. According to this OMBE report the percentage of loans made to minorities in fiscal 1970 was forty-one percent. The comparable figure for fiscal 1969 was thirty-two percent and for fiscal 1968 eighteen percent.

Winifred Armstrong of the National Planning Association. "Some Nigerians do several hundred thousand dollars of business a year, and run operations employing hundreds of people, with branches in many countries."

A recent survey of eighty-four potentially successful black businesses by OEO identified twenty-four as being "successful." [7] Their criteria defined "successful minority business" as profit-oriented, showing a profit in 1969, and with a minimum gross sales greater than $500,000 for the two years 1968 and 1969. Examples of very successful black firms include Johnson Publications, Johnson Product and Park Sausages. Of the remaining sixty minority firms surveyed, fifteen, while not meeting the criteria, were considered promising enough to warrant case studies and analysis, while forty-five were to small or unprofitable to merit further study.

Blacks own only a small percentage of assets.

Thus, some black businessmen have, despite severe handicaps, been able to initiate and maintain successful businesses. But the overall picture is bleak, with blacks owning only a small percentage of American business assets—not even a significant percentage of the trade or service businesses in their own communities. Where half the population is black, as in Newark, New Jersey, of the 12,172 licensed businesses, only a little more than ten percent are black-owned.[8] Negroes are a majority in Washington and yet they own less than thirteen percent of the city's 11,755 businesses.[9] In Los Angeles, with over 600,000 black residents, blacks own a tiny fraction of all businesses.[10]

New freedoms short-lived.

The explanation for the lack of black entrepreneurs in America must lie in their experience since coming to this country. The end of slavery was followed by several decades in which the former slaves began to enjoy some of the rights of citizenship. Yet, by the 1890's, and earlier in many states in the South, severely restrictive codes which reduced the blacks once again to second-class citizenship began to go into effect. The doctrine of "separate but equal" came to be the public rationalization that justified forcible racial segregation. In actuality, the doctrine served to deny any semblance of equality in the distribution of rights. In the North, racial discrimination was not justified by law, but it was an everyday fact of life, narrowing opportunities open to blacks.

In the North, outlook little better.

Freed blacks in the North, while small in numbers in the pre-Civil War days, were often engaged in commerce. Many thrived, no doubt with substantial patronage from whites who harbored abolitionist sentiments. Yet, after the war, the tremendous influx of newly-freed slaves from the South began to activate latent racial prejudice in the North. Credit that had previously been available to black entrepreneurs was no longer attainable; shipping licenses and other business opportunities were restricted.

Waves of European immigrations.

Meanwhile, the North experienced fresh waves of immigration from Europe. The Irish, Germans, Jews, Italians, and central Europeans surged into the cities and factory towns of the North. In city after city, the white immigrants displaced blacks from their jobs.

Despite the frequently active resistance in both the North and South to the growth of black business, blacks have persevered in their attempts to establish themselves in businesses. In 1900 Booker T. Washington established the National Business League which exists today as a vital force for black businessmen.

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[7] This OEO survey was performed by Susan Davis and Paul London for Theodore Cross during the spring of 1970 and is available from the Economic Development Division of OEO. The survey was not comprehensive and at least an additional fifty firms were brought to light after the survey was completed.

[8] See Theodore Cross, *op. cit.*, p. 6.

[9] 1968 Annual Report of the Interracial Council for Business Opportunity. (New York: ICBO, 1968).

[10] *Ibid.*

Businesses grew up within black neighborhoods.

In the South, some black businesses grew up to fill needs in their black neighborhoods. Insurance companies, barber shops, and grocery stores catering specifically to blacks came into being in part because blacks were unable to buy these services and goods elsewhere. The growing black ghettos of the North experienced a similar phenomenon, although the exclusion of black consumers from white-owned markets was not as characteristic as in the South.

Black business, however, in both the North and South, has been situated in segregated market settings and has tended to concentrate on such relatively low growth markets as personal services (such as barber shops and funeral parlors) and retail trade. A recent survey indicated that 30 percent of minority-owned enterprise involved personal services, while only 7.4 percent of non-minority-owned enterprise was in this area; correspondingly, only 1.2 percent of minority enterprise was in manufacturing, as compared to 6.9 percent of non-minority enterprise.[11]

Integration, economically a mixed blessing.

In recent years, black-owned businesses have had to face new problems. With the wave of integration in both the North and South has come a breakdown of the traditional market barriers, which once served to protect the small black businessman at the same time that they restricted the scope of his activities. Active attempts by majority-owned corporations to attract talented blacks to their managerial ranks and by so doing secure a larger part of the black consumer market have generally benefited the overall black community. However, this competition for business talent and consumer spending has put additional pressure on small retail and personal service operations which, together with the greater mobility of consumers from all backgrounds, has increasingly undermined the marginal retail store. Rising wage levels of employees have also contributed to the demise of many small enterprises.

Small shops often a casualty.

In the last several years, economic development experts have begun to advocate the development of black business areas that have been selected because they represent potential areas of unusually high growth. This represents a positive approach towards breaking old molds and stereotypes, of upgrading black capitalism from its present step-child position.[12]

THE AMERICANS OF SPANISH ANCESTRY

Hispanic heritage.

The millions of Americans of Spanish-speaking ancestry belong to diverse groups with some common characteristics. Uniting them in a common bond is descent from a Spanish culture and exposure to discrimination by English-speaking whites.

According to projections by the Bureau of the Census, based on a 1969 sample survey of the fifty states and the District of Columbia, the total, non-institutionalized civilian population of Spanish-American descent in the United States was about 9,230,000.[13]

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[11] See Flourney Coles, *An Analysis of Black Entrepreneurs in Seven Urban Areas.* (Washington, D.C.: National Business League, 1969).

[12] See Laird Durham, *Black Capitalism.* (Washington, D.C.: Arthur D. Little, Inc., 1970), pp. 22-24.

[13] These figures supplied by the Research Division of the Cabinet Committee on Opportunities for the Spanish-speaking must be viewed as a very rough approximation. The Bureau of the Census sample survey on which they are based is vulnerable, as is any survey, to undercounting, due to the probable disproportionate mobility of persons of Spanish-American ancestry and the difficulty of English-speaking surveyors in contacting and relating to Spanish-speaking populations. In view of the geographically skewed location of Spanish-speaking communities, a five-percent national sample survey, even if conducted with the best methodology, has significant room for error.

Table 1—*Origin or descent of the Spanish-American*

POPULATION: NOVEMBER 1969 [14] (Numbers in thousands. Excludes inmates of institutions and members of the Armed Forces.)

Origin or Descent	Number	Percent
Mexican	5,073	55.0
Puerto Rican	1,454	15.8
Cuban	565	6.1
Central and South American	556	6.0
Other Spanish-American	1,582	17.1
Total	9,230	100.0

On the basis of this survey Spanish was reported as the mother tongue of 6,700,000 persons within the United States. Of the 6,700,000 persons who grew up in homes in which Spanish was spoken, 4,600,000 usually speak Spanish at home. The above table prepared by the Bureau of the Census gives a detailed breakdown of the ancestry of Spanish-speaking Americans.

THE MEXICAN AMERICANS

A number of the most numerous Hispanic cultural groups in this country, many of them Mexican-Americans, are descendants of Mexican residents who antidated the immigration of Anglo-whites to California, Texas and the Southwest.

Table 2. *Spanish mother tongue by country of birth for the United States and five southwestern states: November 1969* [15]

(Numbers in thousands)

Nativity and country of birth	United States		Five Southwestern States		Five Southwestern States as a percent of the United States
	Number	Percent	Number	Percent	
Total reporting Spanish mother tongue	6,700	100.0	4,081	100.0	60.9
Native[1]	4,871	72.7	3,100	76.0	63.6
Puerto Rico	806	12.0	22	0.5	2.7
Foreign born	1,830	27.3	982	24.1	53.7
Mexico	856	12.8	767	18.8	89.6
Cuba	491	7.3	60	1.5	12.2
Other and not reported	483	7.2	155	3.8	32.1

[1] Excludes a small number of persons for whom place of birth was not reported. These persons were included with the foreign-born population.

Source: Spanish American Population, *op. cit.*

[14] U.S. Dept. of Commerce, Bureau of the Census, *Persons of Spanish Origin in the United States: November 1969* (Washington, D.C.: U.S. GPO, 1971), p. 13-14.

[15] About 64 percent of the *native* population with Spanish mother tongue lived in the five Southwestern States of Arizona, California, Colorado, New Mexico, and Texas. Approximately one-half of *foreign-born* persons of Spanish mother tongue lived in that portion of the Nation. Three out of every four persons in the Southwest reporting Spanish mother tongue were native; for the remainder of the Nation, a smaller proportion—two out of every three—of the persons of Spanish mother tongue were native. About 90 percent of persons reporting Spanish mother tongue who were born in Mexico lived in the Southwest, whereas 12 percent of the persons born in Cuba with Spanish mother tongue lived in that area.

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Spanish-speaking settlers populated the Southwest long before the first English-speaking settlers touched the shores of North America. As George I. Sanchez has noted:

> Spanish-speaking people have been settled in the Southwest for more than 350 years. The villages north of Santa Fe, New Mexico, founded in 1598, are second only to St. Augustine, Florida, settled in 1565, as the oldest settlements of Europeans on the mainland of the United States. The New Mexico settlements, followed a century later by those in California, represent a Spanish colonial culture that left an indelible imprint upon the history and culture of the Southwest and the United States. More important, that colonial endeavor left people from California to Texas whose descendants constitute a part of the group we now refer to very loosely as Spanish-speaking.[16]

Mexican culture faced Anglo hostility.

The annexation of Texas and the occupation of the rest of the Southwest and California by the United States put tremendous pressures upon the indigenous Spanish-speaking residents of these regions. Control over the political and economic institutions in these areas passed almost wholly to Anglo-whites who were often very hostile to the pre-existing Mexican culture.

Unlike many other ethnic groups that were originally non-English speaking, within the United States the Mexican-Americans were not readily assimilated into the surrounding Anglo culture. This was due in part to the strength of the pre-existing Spanish culture, but it was also fed by the hostility and overt discrimination emanating from members of the ruling Anglo-white culture. The already intricate Mexican cultural heritage involving a strong Catholic religiosity and a sophisticated series of family interrelationships was not to be swallowed up easily by the surrounding Anglo culture. Incidents of persecution and discrimination served to solidify loyalties among the Spanish to one another and to a distinctly separate cultural tradition.

More people, more problems.

As industry developed in the West and Southwest, both Mexico and the Orient became major sources of cheap, imported labor. New immigrants swelled the cities' barrios, crowding the Spanish-speaking inhabitants who had been the original residents. Waves of immigration continued, with a significant number of largely middle-class Mexicans coming to the U.S. during the Mexican Revolution of 1910-1920, seeking to escape the chaos of a war-torn country. However, as George I. Sanchez comments:

> Even larger numbers came as contract laborers, recruited by the trainload to work the beetfields of Colorado, the gardens and groves of California, the railroads of the entire West, the copper mines of Arizona, the cotton fields of Texas, even the iron works of Chicago and the coal mines of West Virginia.[17]

The influx of such large numbers of generally impoverished Mexican immigrants further burdened the Mexican-American community in the Southwest. This, in turn, served to reinforce the already established patterns of discrimination.

In the white-collar occupations, Mexican-Americans are greatly under-represented among managers and proprietors, with only 4.9 percent versus 14.7 percent for the Anglo-whites in the urban Southwest. Mexican-Americans are equally under-represented in the professions, 4.6 percent versus 15.1 percent for Anglos.[18]

Few managers or owners.

There are few Mexican-Americans who own or manage large businesses. The major study in the area, completed in 1970 at the University of California at Los Angeles (U.C.L.A.), found only one bank and one savings and loan institution in Los Angeles owned by Mexican-Americans, despite a Mexican-American population of

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[16] George I. Sanchez, "History, Culture, and Education" in Julian Samora (ed.) *La Raza: Forgotten Americans.* (South Bend, Indiana: Notre Dame Press, 1966), pp. 5-6.

[17] *Ibid.*, p. 7.

[18] Leo Grebler, Joan Moore, and Ralph Guzman, *The Mexican American People* (New York: The Free Press, 1970), p. 215.

nearly 630,000 (1960 Census).[19] No other commercial banks with Mexican-American ownership were found to exist elsewhere in the United States. This same study found many more wealthy Mexican-Americans in the professions than in business.

New activism.

In recent years, young Americans of Mexican ancestry, proudly calling themselves Chicanos, have begun to forge a new cultural identity. These new activists have devoted themselves to promoting economic development among their brethren and to securing political and social benefits for *La Raza*.[20]

THE PUERTO RICANS

Puerto Rican immigration substantial.

Substantial migrations of Puerto Ricans have occurred during the last several decades. In the main, they have gravitated to the industrial centers of the eastern United States. Since the Puerto Rican islander already possesses United States citizenship, passage to the United States has been a relatively easy matter for him. Even in Puerto Rico, the mechanization of agriculture has driven much of the rural population to the cities. While imaginative programs by the government of the Commonwealth of Puerto Rico have done much to attract industry and tourism to the island, still many Puerto Ricans have sought opportunity in the mainland economy.

Outwards from N.Y.C.

New York City has traditionally been both the major port of debarkation for Puerto Ricans immigrating to the American mainland and the home for the vast majority of Puerto Ricans on the mainland. However, while Puerto Ricans continue to constitute a significant and expanding portion of the New York City population, their wave of migration has begun to spread out to other cities on the Eastern Seaboard and to the Midwest. Government and private estimates suggest that there are probably about 80,000 Puerto Ricans in Chicago, 45,000 in Philadelphia, 8,000 in Cleveland and 10,000 in Detroit. Smaller cities along the East coast also have growing Puerto Rican communities.[21]

Language, a barrier.

One of the greatest problems faced by Puerto Rican immigrants is the language barrier. It has often denied them access to decent jobs, business opportunities and, until recently, to the right to vote in most states. These difficulties have, in turn, been reinforced and compounded by the lowered income and social status typical of immigrant populations. Just like the black who has migrated to large Northern cities in search of greater opportunity, the Puerto Rican migrant of rural origins often finds the culture of the Anglo-white dominated urban society totally strange and hence somewhat threatening.

THE CUBAN AMERICANS

Refugees from Castro welcomed.

As of November 1965 there were approximately 656,000 Americans of Cuban ancestry in the U.S. Most have come to the United States since the advent of the Castro regime in 1959. Of this group, about 504,000 were born in Cuba.[22]

The rapid movement of the Castro regime to the left, its expropriation of both foreign-owned and Cuban business, and the generally anti-bourgeois thrust of Castro's regime have driven large numbers of the Cuban upper and middle classes to the United States, where sympathy for the victims of Castro's repression created a relatively receptive climate. Immigration barriers were relaxed substantially as public and private resources were committed to ease the refugees' settling in the United

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[19] *Idem.* This figure compares with a U.S. average of about one commercial bank for every 15,000 Americans.

[20] See Stan Steiner, *La Raza: The Mexican Americans* (New York: Harper & Row, 1970).

[21] Figures supplied by the Research Division of the Cabinet Committee on Opportunities for the Spanish-speaking, 1970.

[22] *Idem.*

States. In the mid-1960's, after Castro decided that he would like to purge his country of additional, potentially unfriendly elements, the United States and Cuba cooperated in the airlifting of thousands of additional refugees to the United States.

Unusually successful adjustment.

While many Cuban artisans and professionals were at first forced to assume relatively menial jobs in order to earn a living in the United States, in a few years, after having become fluent in English, thousands have become involved in flourishing businesses in the United States. In the city of Miami, the largest center of Cuban-American culture, Cuban-American entrepreneurs have revitalized large sections of the central city. And, as the Puerto Rican immigration has spread out from its beachhead in New York City, so has the Cuban immigrant population spread out from Miami. It is estimated, for example, that 80,000 Cubans live in Chicago.[23]

OTHER SPANISH-SPEAKING

Diversity of traditions.

While it is difficult to generalize about the experience of mainland Americans of Mexican, Puerto Rican, or Cuban extraction, it is virtually impossible to discuss coherently the migration patterns and experiences of the many diverse groups that are lumped together in the Bureau of Census estimates as being of Central and South American descent or of other Spanish-speaking origin. As a group, they number slightly over two million, but it is difficult, if not impossible, to treat them as an entity, due to the diversity of their cultural traditions. Included are direct descendants of Old World Spanish culture, as well as inhabitants of our hemisphere, carriers of many strains of basically Hispanic tradition that have come to the United States in wave after wave of migration over the past several centuries.[24]

THE AMERICAN INDIAN

Below poverty levels.

Approximately 775,000 Americans are estimated to be at least one-quarter Indian. About 450,000 of these Americans of Indian ancestry live on or near a federally recognized reservation, colony, rancheria, or pueblo.[25] The economic condition of these residents is appalling: seventy-five percent of the approximately 95,000 Indian families living on or near a federally recognized community have incomes below the federally recognized poverty guidelines. Their unemployment rate is ten times that of the national average or approximately 50 percent of the available and able working force.[26]

Youthful and growing population.

The American Indian population is young and rapidly growing, with over half the population under 21 years of age. One-third of the total population is between the ages of 5 and 15. American Indians are increasing at a greater rate than any other minority group. By 1985 it is estimated that the Indian population will have increased by 37 percent, while the national population is expected to increase by only 23 percent during the same period.[27]

Indian educational levels are rising with the emergence of new patterns. The average Indian youth who is not yet 21 will complete ten years of schooling, while the balance of the population that is over 21 years went to school for an average of only six years. With more education, there has been increased activism directed toward political, economic, and social goals.

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[23] *Idem.*

[24] Many of the almost one million six hundred thousand persons whom the Bureau of the Census characterizes as other Spanish-Americans are likely descendants of Spanish-speaking settlers who came from Mexico hundreds of years ago. These individuals may well identify with Spanish culture in a general sense rather than with Mexican culture and hence might declare themselves "other Spanish-Americans." Figures supplied by the Cabinet Committee.

[25] William Hallet, "American Indian Enterprise", Research Report prepared for the PACMBE, September 1970.

[26] *Ibid.* [27] *Ibid.*

This increased vitality in the Indian communities, both urban and rural, has sparked a number of economic development and educational ventures. In urban areas, Urban Indian Development Corporations have arisen to promote the economic development of Indian communities in centers such as Los Angeles. Development efforts in rural areas have not been as successful. Traditional obstacles have hampered economic development on reservations. Chief among these is the reservation's isolation. Due to transportation costs involved, goods manufactured on a reservation have difficulty competing with similar goods manufactured in an urban area. Half the reservations have no direct access to rail transport and only a handful can utilize maritime or air transport systems.

Reservation life limits markets.

It is hardly surprising that the unique character of Indian reservations has had a strong impact on business development programs designed to assist the residents. Due to a number of factors, primarily the reservations' typically isolated location, tourists have often been the major purchasers of Indian goods and services, simply because few other market opportunities have existed. The tradition of tribal ownership of whatever productive resources were present, the existence of tribal governments with significant decision-making powers and the natural reluctance of tribes to surrender any interest in their land (including mortgage interest) are factors that have had a strong influence on the economic development of the reservations.

Many reservations have depended on the production of craft products and their sale to the tourist market. The limited economic return of such activities is reflected in the Indians generally very low income levels and substantiated by statistics.

Need for more businesses on reservation.

However, in the past several years, a number of national corporations have located sophisticated industrial plants on or near reservations. Simultaneously, a number of young, college-educated Indians have been dedicating themselves to the economic development of their reservations, and a desire for the ownership of productive wealth has been generated. Unfortunately, these efforts have been hampered by uncertainties in regard to the relationship of American Indians and the federal government.

Unique relationship with government.

The special relationship of the federal government to the American Indian is a factor that conditions any Indian business development program which would ultimately improve conditions on the reservations. As William Hallett observed in "American Indian Enterprise",[28] Indian tribes possess a unique and direct relationship with the federal government which is derived from several sources. First, it is a legal relationship. Through treaty and law, Indian communities are entitled to stipulated services from the federal government.[29] "As a result of the treaties, the Indian people surrendered their land to the federal government under certain conditions of trust and good faith. The government undertook a sacred trust to finance basic programs such as health and education." [30]

Upon the creation of Indian reservations, the federal government assumed the role of trustee over lands owned either by Indian tribes or individuals. Because of the trust responsibility assumed by the federal government, these lands are exempt from taxation, although income derived from some trust lands is subject to taxation.

Further, as the research report noted: "Under this trust arrangement, title to trust lands is held by the United States government. The owners—either the Indian tribes or individual Indians—have the beneficial interest. Tribal trust lands can be sold only through special legislation. Individually-owned lands can be sold or exchanged only with the approval of the government and in most cases lease arrangements must be approved by the government." [31]

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[28] Research paper prepared for NACMBE, *op. cit.*

[29] *Ibid.* [30] *Ibid.* [31] *Ibid.*

Loss of tribal identity.

While the special relationship of the federal government to the American Indian has had many grave deficiencies in practice, the vast majority of Indians prefer its continuation to an abrupt termination. Under the policy which gained considerable favor within Congress during the 1950's, the special federal relationship with the American Indian would have been terminated; tribal lands would have been sold, with the proceeds of the sale going to tribal members; and Indians would have been encouraged to become amalgamated into the surrounding society. When applied to a particular tribe, the termination policy almost invariably resulted in a loss of tribal identity and worsening of the social and economic conditions of the tribal members. In fact, this threat of termination served to hinder Indian development efforts. President Nixon's Indian message of 1970 was especially welcomed in its emphatic renunciation of any termination policy. The President's endorsement of "Self Determination Without Termination" has and should continue to prove a real reassurance to American Indians who have feared that their cultural identity would be destroyed by federal whim.

Renunciation of "termination".

FEDERAL RESOURCES

A major factor shaping the environment for minority enterprise is the wide range of government programs designed to mobilize both public and private resources towards these ends. These programs are reinforced by strong statements of support by high government officials.

The Small Business Administration has evinced both concern and interest in minority entrepreneurs on numerous occasions. In the hearing before the Subcommittee on Urban and Rural Economic Development of the Select Committee on Small Business, an official of the SBA said:

SBA has gone on record.

> We in SBA have as an important policy the promoting of minority enterprise. We firmly believe that the minorities of this nation must be given the opportunity of business ownership. This opportunity must be real—it must be effective. Therefore, we also believe that when we assist members of minority groups to find the necessary capital to enter into business, we have a concomitant responsibility to see that they have available the management and technical assistance needed for their success.[32]

The Secretary of Commerce, Maurice H. Stans, in his statement on National Strategy for Minority Enterprise, said:

> This Administration commits itself to the development and implementation of a national program designed to support the optimum establishment of new, and the strengthening of existing, minority-owned businesses. The goal of this program is to establish for those individuals heretofore excluded by their racial or ethnic origins, full equality of access to business opportunities and resources.[33]

Many departments have joined in.

On numerous occasions officials of the Department of Housing and Urban Development (HUD) and the Office of Economic Opportunity (OEO), the General Services Administration (GSA), the Department of Defense (DOD), and other governmental agencies have expressed their concern and their support for the minority entrepreneur. Having established the stated intent of this administration, it will be useful to describe briefly the programs that are presently available to the minority entrepreneur.

Within the Department of Commerce, there are two divisions which are primarily concerned with the minority entrepreneur: the Office of Minority Business Enterprise (OMBE) and the Economic Development Administration, (EDA). The Office of

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[32] U.S. Senate Select Committee on Small Business, Subcommittee on Urban and Rural Economic Development, *Hearings on the Impact of Franchising on Small Business*, 91st Congress, second session, (Washington, D.C.: U.S. Government Printing Office, January 20, 22, & 27, 1970), pp. 419-420.

[33] Speech by Maurice H. Stans, *National Strategy for Minority Enterprise*, October 13, 1969, p. 5.

Minority Business Enterprise was created by President Nixon on March 15, 1969, by Executive Order 11458. This order established the mandate of OMBE to constantly review both existing and possible new programs and make recommendations for further executive and legislative action as appropriate.

OMBE established March 1969.

In the execution of its mandate OMBE has four major functions: 1) to coordinate federal activities that are/or could be designed to aid the minority entrepreneur; 2) to mobilize the resources of the private sector so they can be more efficiently and effectively used; 3) to stimulate minority communities so they will be able to take advantage of new opportunities; and 4) to serve as an information center for all public and private activities in the minority enterprise area.

OMBE has four major functions.

The Economic Development Administration of the Department of Commerce has as its primary goal the economic development of geographical areas in which there is substantial and persistent unemployment or underemployment. To accomplish this goal, its programs are focused on improving the economic potential of an area so that it will be able to attract additional economic activity. A large part of EDA's budget is used to improve the area's infrastructure, such as public facilities. Grants and loans are made to modernize the public works or public service facilities. EDA's business development program is used to give large, low-interest and long-term loans to businesses wishing to locate in the designated areas. Usually these are large loans given to major businesses, which can be expected to generate a significant number of jobs. Smaller businesses do receive EDA loans, but the size of the average loan is close to one million dollars.

EDA's role in minority development.

This program is not usually aimed at the small minority entrepreneur; however, EDA's technical assistance program can provide management assistance for minority entrepreneurs. In this instance, special emphasis is placed on minority enterprise that will provide jobs for the hard-core unemployed. Recipient feasibility studies are performed with marketing, financial, accounting, and other types of assistance made available as needed. Traditionally, EDA's efforts have been concentrated in the rural areas, but recently somewhat more attention has been given to urban problems.

The Department of Labor can provide valuable services to minority enterprise through its manpower training capacity. Although usually utilized by large businesses to train the hard-core unemployed, the Job Opportunities in the Business Sector (JOBS) program can also be employed by the minority entrepreneur to train any hard-core unemployed employees he may have. The Department of Labor has power under the Manpower Development and Training Act (MDTA) to provide on-the-job training (OJT) or classroom training for employees. This program has been expanded to include training of the non-professional employees of the entrepreneur. Perhaps MDTA monies could be used to provide management training for minority businessmen. Such a program was started by the Experimentation and Demonstration division of MDTA. Seven pilot programs were set up to experiment with different ways in which management assistance could be provided to help the minority entrepreneur.

Department of Labor programs.

The Department of Housing and Urban Development (HUD) is in a position to help minority enterprise through its contract construction program. Minority firms involved in construction can take advantage of the building opportunities which are created by Model Cities, the Federal Housing Administration, the Housing Assistance Administration, the Renewal Assistance Administration, and other agencies within HUD. The loans, grants, and guarantees that are generated by these programs make possible new construction, slum clearance, and other opportunities for the entrepreneur. In some of its urban development programs, HUD has tried to give special consideration to minority contractors identified in a study done by the NAACP for HUD's Office of Contract Compliance.

Construction offers opportunity.

As the federal government's experimentation agency, the Office of Economic Opportunity is developing several programs which relate to minority enterprise. The creation of the Community Development Corporation, or CDC, has had an impact on the development of minority entrepreneurs. Typically, OEO makes a two-year grant to the CDC to promote community-based economic development. This grant can be used for a number of development purposes, which include the provision of loans, equity capital and guarantees to minority entrepreneurs.

These funds can also be used to give managerial and technical assistance to an entrepreneur and encourage poverty area residents to acquire ownership of production and commercial facilities in their areas. The Opportunity Funding Corporation (OFC) is a new OEO program which is experimenting with various types of guarantees and incentives that could be given to various private sector institutions to encourage them to invest in socially useful programs. The provision of capital and expertise to minority enterprise is one of the primary aims of this new program.

New OEO experimental guarantee, subsidy, and incentive program, OFC.

The University Extension Program of HEW's Community Service and Continuing Education Program gives matching grants to states which use their universities to participate in programs involving the community. Several programs have been set up along these lines, utilizing the facilities and expertise of the university to provide assistance for minority enterprise.

Higher education community program.

Very limited loan funds are available to special groups through the Bureau of Indian Affairs and the Veterans' Administration. The BIA disperses funds directly and indirectly to persons who are at least one-quarter American Indian. Direct loans to Indian businessmen are made from a revolving fund, while indirect financial assistance can be obtained from the fund given to the tribe from the BIA. However, the funds available from these sources are so limited that the BIA makes an effort to obtain business loans for Indians from other sources.

Other limited sources of loans.

The VA business loans and guarantees are also limited to a small group of people. To obtain a veteran's business loan, one must have served in the Korean War. Under this program, the VA will guarantee fifty percent of a business loan (non-realty) not greater than $2,000 if the bank agrees to charge an interest rate of less than seven and one-half percent.

The General Services Administration and the Department of Defense are large purchasers of goods and as such can provide contract and procurement opportunities to minority entrepreneurs. Small businesses and businesses in labor surplus areas are given special consideration in the bidding process by DOD. GSA makes an effort to make repair and improvement contracts available to minority contractors.

IV. Recommendations[1]

Past and present efforts commended.

In developing these recommendations, the Council has been primarily interested in presenting a comprehensive program aimed at removing fundamental obstacles to minority enterprise. The Council recognizes the substantial efforts already taken by the public sector encouraging minority enterprise development. In particular, the Council commends the President for the creation of a coordinating agency in the person of the Office of Minority Business Enterprise; the Small Business Administration and the Department of Commerce for their greatly expanded minority enterprise programs; the initiation of programs such as the Office of Economic Opportunity's Opportunity Funding Corporation; and the General Services Administration's contract set aside program.[2] The Council also feels that the private sector, in its generous support of these programs and in the initiation of its own programs, has shown real leadership in the development of viable minority businesses.

Build upon current programs.

Thus, the Council wished to make clear that its recommendations are intended to build upon and expand programs already under way, as well as to introduce new programs that will complement and strengthen the encouraging start already made by the private and public sectors. We recognize the legacy of the past, the enthusiasm of the present, and the possibilities for the future.

The Council would like to indicate that objections relating to possible constitutional problems with respect to those recommendations which imply preferential treatment for minority groups have received careful consideration but further study will be required before all the ramifications are understood. In addition, the possible effect of the "prudent man rule" (relating to fiduciary responsibility which requires that great care be used in investing the funds of any corporation, profit or nonprofit) on the legality of some of the recommendations will require additional study prior to the completion of an operational legislative package.

Basic to Council findings.

The Council has been guided in its deliberations by a number of basic considerations, including the following:

- The Advisory Council feels that a policy of reprivatization of efforts in this area is essential; that is, the local communities and private enterprise must assume a large measure of responsibility for the "doing," leaving the overall strategy formulation to the government sector;
- Priorities and goals for minority enterprise should be established at the local level;
- A pluralistic approach to the provision and delivery of financial and management resources adapted to local needs should be encouraged;
- Private-sector initiative and leadership is a crucial element in establishing a viable system of minority enterprise; every effort should be made to encourage and strengthen private-sector involvement, with the government providing incentives to encourage this involvement;
- Expanded minority community involvement in all elements of planning, implementation, operation, and evaluation of any minority enterprise program will be an essential element in its success;

[1] The following section is a detailed discussion of the Council's recommendations including a discussion of the recommendations made in the Framework for Action section.

[2] A complete report of government activities in the area of minority enterprise during fiscal 1970 is being compiled by OMBE. It is expected to be published in the near future.

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- There is an important need to identify higher growth market areas for small business development and to make this information more generally available to existing and potential entrepreneurs;[3]
- The concept of "minority enterprise" (which grew from an earlier concept of "black capitalism") should be enlarged to embrace a concept of "expanded ownership". It is recognized that it is most important to provide a greater stake in our economic system for the socially and/or economically disadvantaged;
- Federal involvement should be on a partnership basis with state and local governments, the private sector, and the minority communities;
- Business and management education, at all levels, is a key element supplementing the provision of business opportunities, financial resources, and technical assistance.

Common problems seek solutions.

The Council believes that the social and economic problems of both minority and majority small businessmen have much in common, and that much is to be gained by a strategy designed to solve their common problems. Irrespective of the color of their skin or their national background, small businessmen suffer from a number of common problems. The typical man who is in business for himself has only limited capital at his disposal and will probably lack the management training that would help him to utilize his funds in the most effective way. Often, the small businessman is unable to get bonding. If his shop or establishment is in a high crime area, he finds himself plagued by vandalism on one hand and pilferage on the other. He probably does not receive what he considers adequate police protection.

When he needs money, he has to pay high interest rates and, if he ever does get a little ahead of the game, he will lack the necessary investment information to put his money to work in an effective way. This same lack of knowledge will handicap him if he applies for government aid—he will be both rebuffed and mired down in red tape. More likely, he will not take advantage of government sponsored programs from which he could benefit—he will not even know that they exist.

Success is color blind.

Although these difficulties are nearly universal, they are compounded for the minority entrepreneur. However, the commonly held notion that being Anglo or white carries with it an inspired business heritage and access to all the money, markets, and management expertise one needs is a misconception reflected in the relatively high failure rate of small business in general.

It is the recommendation of the Council that the concept of minority enterprise, small business development, broadened forms of economic participation, and selected rural development programs be seen as consistent and complementary, and that public and private resources be concentrated toward the goal of significantly enhancing development in these areas. The Council proposes the following comprehensive set of recommendations, which are divided into six broad functional areas: National Strategies and Goals; Business Opportunities; Expanded Ownership; Finance; Management and Technical Assistance; and Legislative/Administrative.

NATIONAL STRATEGIES AND GOALS

Urgency of problem cries out for national commitment.

As the Council has proceeded in its investigation into the problems of minority enterprise, it has found its deepest concerns substantiated. There is little precise information on the dimensions of the problem, but estimates place the number of businesses owned by minority group members at between 1 and 3 percent of the total number of American businesses, their total assets at less than one percent.[4]

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[3] See the President's small business legislative package, S. 4316 and H.R. 16644, Section 103.

[4] U.S. Small Business Administration, Office of Planning, Research, and Analysis, *Distribution of Minority Owned Businesses*, unpublished report prepared by Albert Reiss (Washington, D.C.: SBA, June, 1969), p. 10.

Although there have been some significant increases in recent years in minority incomes, the income gap that still exists is an important factor retarding the growth of a capital base through personal savings. Professional and managerial participation by minorities is still too disturbingly low to inspire expectations of the emergence of a large managerial/entrepreneurial/technical class of citizens capable of leading the development of strategic areas of minority communities.[5] Finally, the lack of minority participation in current government aid programs, as well as in traditional business institutions, indicates that the essental linkage between minorities and assistance are still missing. In this context, the Council has proceeded to develop programs which it feels will go far to foster viable minority business activity. It has become clear to the Council, however, that the magnitude of the task is great, the resources minimal, and the urgency such that national commitment is required. Specifically, the Council recommends that substantially increased ownership of economic resources by minority groups be made a *national priority* in the decade of the seventies.

The urgency of the need should be expressed in an executive message detailing the comprehensive nature of the problem. If the goal of economic integration is to be achieved, the program of necessity will involve the commitments of both public and private sectors, as well as the allocation of public and private resources. Overriding all other considerations is the urgent need for public recognition that full participation must become a reality for all citizens, regardless of their race, creed, or ethnic background.

New vistas in financial planning.

The Council agrees with the Administration that the eligibility for loan participation and guarantees should be broadened beyond the scope of traditional lending institutions. Possible sources of new lending power might include non-financial corporations, non-profit institutions, and others seeking to invest in minority development.[6]

The Council feels that the flow of funds to minority enterprise can be accelerated if the granting of federal guarantees is made more automatic.[7] This is substantiated by the federal government's experience with guarantees on FHA loans which are provided if any loans are approved by certified lending organizations. Compliance with federal regulations is regulated through certification and post-audit reviews.

Costs of servicing loans.

A major problem for minority businesses in obtaining adequate capital is the cost of servicing the debt portion of any new capital obtained. One method of partially alleviating this problem is the provision of an interest subsidy.[8]

There is an urgent need for more management and technical assistance, and small business training in general. Not surprisingly, the need is most urgent for the minority businessman. If the need is to be met, it is clear that substantial financial resources must be made available. The Council supports the President's legislation in this area which provides direct grants for the provision of such services.[9]

Data base needed to bridge information gap.

An important gap in implementing, operating, and/or evaluating this proposed program is the lack of an adequate data base. The President's legislative package, providing for needed studies and research, would supply a useful first step towards the generation of a data base.[10]

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[5] Bureau of Labor Statistics, 1969. Minorities comprised only 2.7 percent of the category of managers and entrepreneurs in 1967, or 209,000 versus 7,286,000 non-minority persons in the same group.

[6] *Ibid.*, Section 101 (1). [7] *Ibid.*, Section 101 (2). [8] *Ibid.*, Section 101 (3).

[9] *Ibid.*, Section 102. See Council recommendation, p. 3, providing for $160 million for business and management education and $170 million for management and technical assistance.

[10] *Ibid.*, Section 103. The Council has recommended that the generation of such a data base be viewed as a high priority item, p. 4. The Council has recommended that $40 million be set aside for the needed studies, analysis, and dissemination. (p. 3).

An important limitation on the growth of the Minority Enterprise Small Business Investment Company (MESBIC) program is the restriction of licenses to profit-making, non-banking organizations. The President's proposed legislative package allows for the organization and chartering of MESBIC's by non-profit organizations and some investment in MESBIC stock by banks and other financial institutions.[11]

One way to increase the flow of funds available to minority enterprise is through the creation of a secondary market for the securities of minority financial institutions. The proposed small business package provides that the SBA may purchase or guarantee the securities of MESBIC's. The Council believes this is an important financial leveraging device.[12]

President's small business package.

The President's small business package also provides several other important provisions including the establishment of a $10 million lease guarantee revolving fund, as well as the authority to participate in and/or guarantee bid payments or performance bonds up to $500,000.[13]

The Administration has submitted a proposal to Congress embodying all these provisions. It has been passed by the Senate as S. 4316; House Bill H.R. 16644, is still pending. The Council strongly supports its passage.

Necessity of acquiring training and education.

BASIC CONSIDERATIONS

There is little or no tradition of business success within the minority communities. The Council feels that in large part this stems from a lack of access to meaningful management and business training. It is also reflected in the very small number of representatives of minority groups who have acquired M.B.A. degrees,[14] despite the growing importance of the M.B.A. as a basic credential for obtaining a decision-making position in management. This failure to obtain adequate formalized training is also borne out by the small number of certified public accountants among minority group members. Only a little more than one tenth of one percent of CPA's are members of minority groups.[15]

To correct this situation, the Council recommends that formal business and management training be made a high-priority program for the decade of the seventies. This will require the cooperative efforts of both public and private sectors. The Council recommends that scholarship and loan assistance be made available to minority students seeking such training in colleges and universities and in vocational and trade schools.[16]

In addition, the Council strongly advocates that vocational training be substantially increased at all levels. Labor Department Manpower Development and Training Act funds should be made available for this purpose.

Organization at the local level crucial.

The President's Advisory Council on Minority Business Enterprise has devoted considerable time to designing an effective mechanism for the delivery of financial, management, and technical assistance resources to minority enterprise in urban and rural areas. Basic to its findings is that such a mechanism must be initiated and run at the local level, with maximum use of existing organizations and resources and with the commitment and involvement of public sector, private sector, and minority group decision-makers from the local community. (Figure 1.) The function of the

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[11] *Ibid.*, Sections 202 and 203.

[12] *Ibid.*, Section 204. See also Finance Task Force Recommendations.

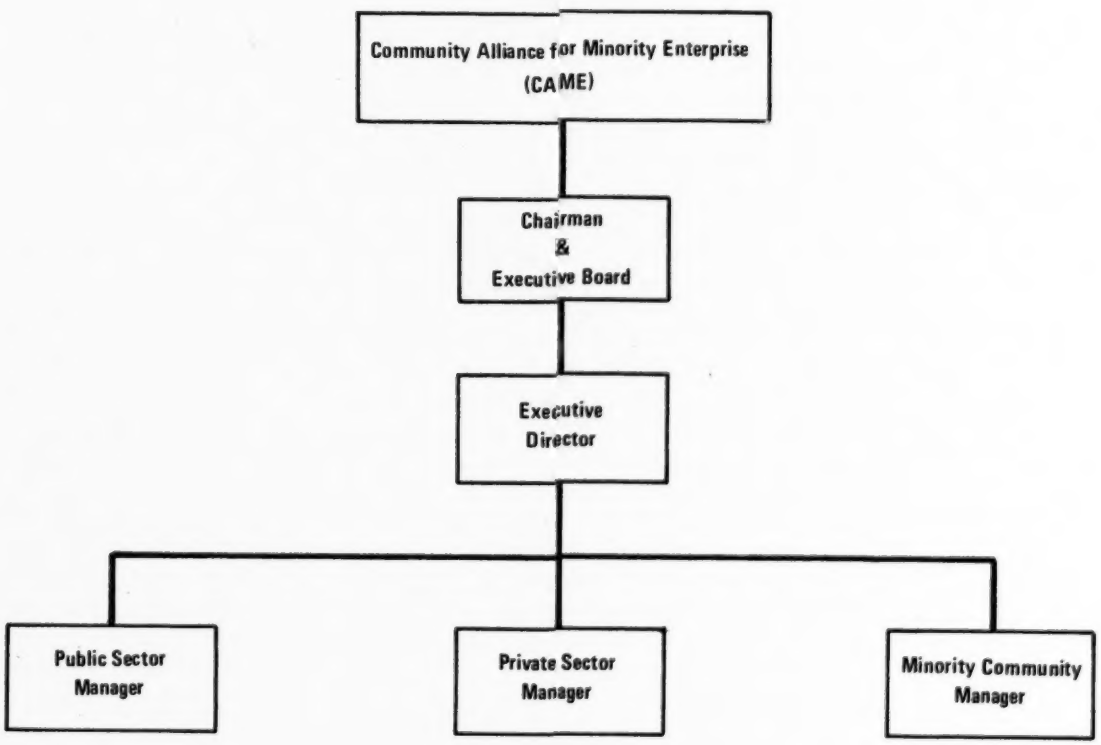
[13] *Ibid.*, Section 301, 403, 410, and 411. See also Council recommendations, p. 40.

[14] During the last forty years, less than one half of one percent (.5%) of all M.B.A. holders have been minority group members. Data gathered in a joint Atlanta University/Northwestern University project during the summer of 1970.

[15] Bert Mitchell, "The Black Minority in the CPA Profession", *The Journal of Accountancy* (October 1969), pp. 41–48. Mr. Mitchell's survey revealed the names of 136 black CPA's out of a total U.S. CPA population of about 100,000.

[16] The Council thus strongly supports Title I, Section 102, (b), and (7) of S. 4316 and H.R. 16644, which provides for some federal support in this area.

LOCAL DELIVERY STRUCTURE



Agency Commitments	Organizational Commitments	Function
AEO SBA Commerce GSA HUD HEW Agriculture SEC OEO	Banks Local Bar Association Chamber of Commerce American Institute of CPA's National Association of Accountants National Legal Aid and Defenders Assn. Investment Bankers Assn. Local MESBIC's Local College, University Schools of Business Local Businesses	Recruits entrepreneurs, assists in packaging of resources Point of first contact with entrepreneurs, etc.

Figure 1

local delivery office would be to inventory existing resources, package them to meet individual business requests, and generally act as a one-stop "brokerage" service for community development groups of individual entrepreneurs seeking aid.

These representatives of the three sectors (private, public, and minority groups) would meet regularly, setting local goals for the generation of minority enterprise and committing their organization to certain specific projects. They would also oversee the staffing of the local delivery system office and delegate responsibility among government, private sector, and community organizations so as to assure results. Most of the financial resources committed would be local, although backed by federal guarantees, incentives, subsidies, and grants.

Tailored to local conditions.

In designing a prototype for a successful local delivery system, the Council stresses the need for flexibility in order to adapt to local circumstances. Thus, pluralism becomes a guiding factor in the design of a delivery system that will accommodate a variety of local conditions. Among the factors that will need to be assessed are the community power structure and population, particularly in relation to the absolute and relative size of its minority communities; the economic base of the community, and its income level; the population density, as well as the social cohesiveness of the minority communities.

1) To this end the Council proposes that the federal government should establish, in partnership with local area representatives, at least one hundred local delivery programs over the next three years.

These local delivery programs would combine the efforts of the minority and non-minority communities and the public sector under one roof. Essentially, they would function as one-stop service packaging centers, providing whatever financial, managerial, and technical resources were needed to foster minority enterprise and to initiate new undertakings. As much as possible, these centers would build upon existing organizations and personnel, drawing upon them for financial, management, and technical assistance.

2) Direct federal grants, averaging $20 million per year, should be made available during each of the initial three years for a thorough testing of the concept.[17]

Tax incentives, a levering factor.

This money would provide, in a large part, for the center's operating and overhead expenses. Tax incentives could be utilized to encourage the private sector to contribute substantial matching funds. Financial needs are likely to vary significantly from one target area to another, with some areas with large minority communities requiring significantly more outside funding than less populated regions. Centers with substantial outlying populations may require a number of radiating sub-centers. In each instance, the federal contribution should be based on the size of the minority population, the viability of the proposed local delivery system structure, and the degree of community support and participation that it inspires.

3) An Executive order should be issued, requiring all local and/or regional federal agency offices, within the effective radius of a delivery system office, to have their federal programs, which could provide inputs to minority enterprise development, coordinated by the local public-sector representative.

Mobilizing the private sector.

Private sector support for these one hundred local delivery systems will need to be mobilized and coordinated. A means of effectively channeling private sector support for the total set of recommendations embodied in this report will need to be formulated. Perhaps the National Alliance of Businessmen (NAB), which has been most effective in channeling private sector support for employing the hard-core poor, can be utilized as a model.

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[17] This federal grant money for the one hundred delivery centers is part of the total $930 million, not a separate federal commitment. The $20 million per year is to be spent by the local centers under private-sector control.

4) It is recommended by the Council that an organization similar to the NAB be established that will mobilize and coordinate private support for minority enterprise, focusing in particular on the one hundred local level delivery centers.[18]

MORE ALIKE THAN UNALIKE

The Council believes that all small businessmen share similar problems and that much would be gained through a joint private/federal effort towards the solution of common problems. At the same time, the Council recognizes the unique difficulties of the minority businessman, who also suffers from racial and ethnic prejudices.

Forms of expanded economic participation.

In addition, the Council feels that an effort for individual enterprise is complemented, and substantially enhanced by the promotion of expanded forms of ownership which involve large numbers of community residents. Only a relatively small segment of the population aspires to entrepreneurship and possesses the abilities and perseverence to see these aspirations through to fruition. Nevertheless, most people do hope to be able to participate in some form of economic ownership which could enhance their standard of living, self-confidence, and long-term security. Examples which this type of ownership and participation might take include Community Development Corporations, credit unions, mutual savings banks, as well as mutual investment funds, mutual savings and loan associations, and employee stock participation plans.

Joint urban-rural venture.

Development of individual business enterprise and participation by community residents in these broader forms of economic activity must be a rural as well as an urban priority. Rural life must be made attractive and rewarding, not only for reasons of ecology, but also to stem the migration to the already crowded urban centers. It is, therefore, the considered opinion of this Council that a commitment to expanded ownership must include resource allocations for the development of industrial parks, public works facilities, and agri-business related enterprise in non-urban areas.

Role of the federal government.

It is essential that the private sector, the entrepreneur, and the community be considered partners by the federal government in the effort to develop new forms of enterprise and economic participation. Each party must recognize its limitations as well as the unique talents and resources it brings to the partnership. In the Council's opinion, the correct role of the federal government lies in the creation of a favorable environment in which enterprise and ownership can flourish. Its taxing authority can, for instance, be employed to create additional incentives for the private sector in the deployment of capital, management, technological and procurement resources.

Investment, risk, and profit seeking are at the heart of business and economic development. As such, they fall in the exclusive domain of the private sector, which should be encouraged to expand its efforts into these higher risk areas. The aspiring entrepreneur and would-be ownership participant can be counted upon to supply the human element —the drive, ambition, and inspiration necessary for success.

Minorities share many common problems.

Finally, in proposing certain specific steps toward expanded enterprise and ownership, we would like to reiterate the common problems and aspirations of socially and economically disadvantaged Americans. Every day, we hear of the alienation and economic insecurity of blue collar and lower-middle income whites who suffer at the hands of government. Heavy taxes, inflation, and crime in the streets are among the most frequently verbalized woes, but there are complaints, too, of the much greater attention paid to blacks, persons of Spanish-speaking ancestry, and other minority groups. It is, however, seldom recognized that there are more than

[18] It is expected that a large percentage of Council members would participate in such an organization.

two million minority group males who are skilled or semi-skilled blue collar workers, who are full-time members of the work force and who share many of the same frustrations as white co-workers.

Media must bear part of the blame.

In 1968, 34 percent of all black families were in the $5,000 to $10,000 income category and 19.1 percent earned more than $10,000. The average figure is, of course, much lower; most families of minority groups are still not nearly as well off as Anglo-white families. The median income of all Negro families was $5,590; for white families it was $8,937.[19] But both of these groups have essentially the same "working class" problems in relation to wages, taxes, and the government benefit structure for the lower middle class—a fact not given adequate recognition by the media. To the extent the media emphasizes only the ghetto and barrio, it perpetuates a stereotype.

Integrated, comprehensive program.

In summary, it is important that the concepts of minority enterprise, small business development, broadened forms of economic participation and ownership, and selected rural development programs be seen as consistent and complementary, and that public and private resources be concentrated toward the goal of significantly enhancing development in these areas.

Decentralization basic to the program.

Minority enterprise delivery systems in the field have rarely been adequate to generate significant new minority enterprise. Furthermore, the structure of existing Washington-centered federal business and economic development agencies have not been as effective as they might have been in promoting minority enterprise. Failures have been laid to such diverse factors as an unwieldy and centralized federal/state/local structure; overlapping, delayed, and duplicating services; poor liaison or coordination; lack of adequate operating funds; as well as inadequate time devoted to planning and the solution of problems.

Responsibility without authority.

The Department of Commerce, through its Office of Minority Business Enterprise, under Executive Order 11458, has the responsibility for coordinating federal minority enterprise activities, mobilizing the resources of the private sector, the state and local governments; and disseminating information on minority enterprise. However, it has no budget beyond that for its staff and no control over the all-important technical assistance monies and federal credit guarantees.[20]

Most of the resources essential for the generation of business enterprise are controlled either by the Small Business Administration or the Economic Development Administration. These organizations have resources and guarantee authority to promote business development. Both organizations, particularly the Economic Development Administration of the Department of Commerce, have considerable authority for community development.

Federal realignment necessary.

Thus, the Council feels that federal restructuring is essential in the provision of a streamlined and effective organization for mobilizing federal resources for expanded ownership. It is with this in mind that the Council recommends that careful consideration be given to the three proposed options for reorganization that follow. The Advisory Council feels that any of the three would be an improvement on the status quo.

The first option would call for the consolidation of federal business and economic development organizations into a single agency with the overall responsibility for minority enterprise as its primary objective. (See Fig. 2)

Proposed Agency for Expanded Ownership.

As the Agency for Expanded Ownership, it would work to expand the opportunities of all Americans to acquire a tangible share in the property and wealth of the country, while promoting the nation's economic growth and development within

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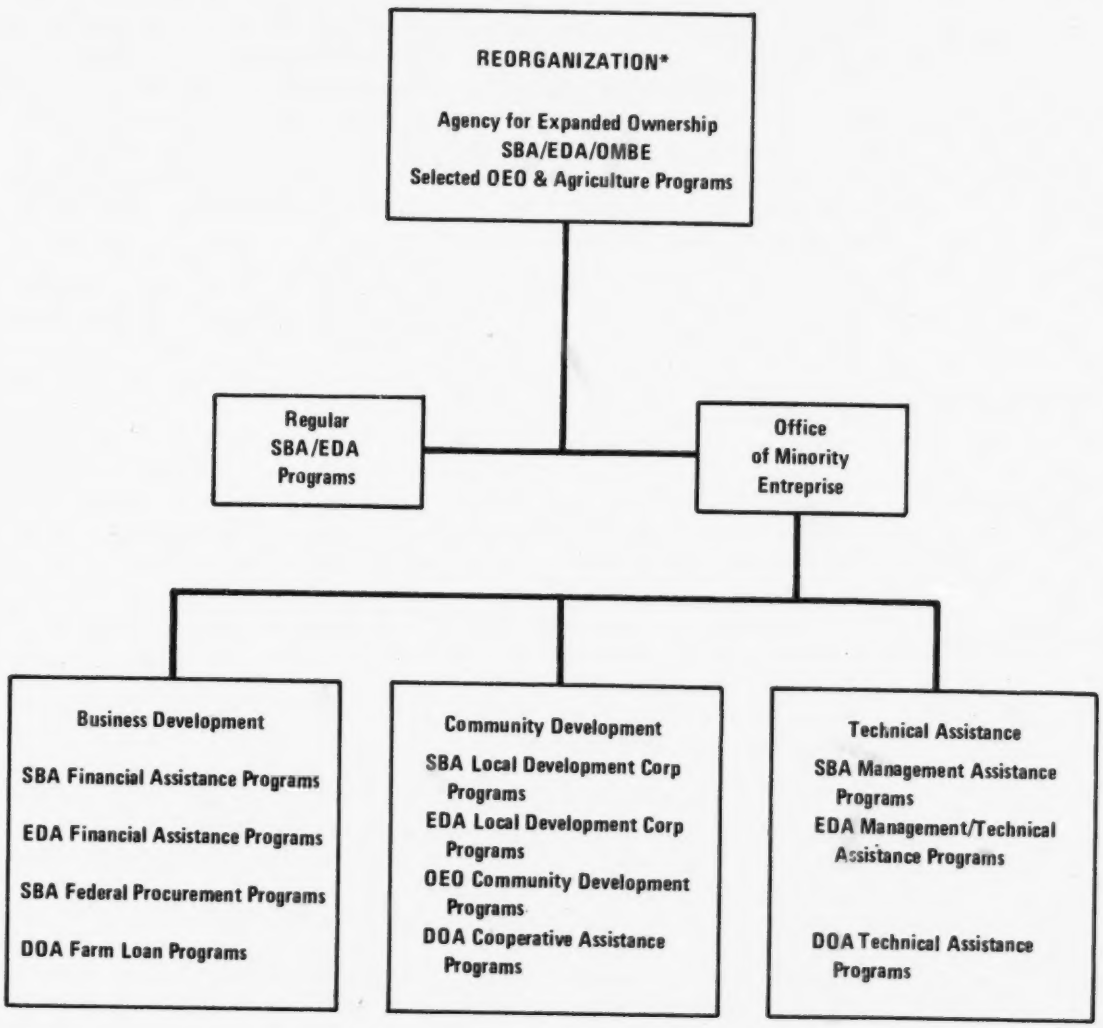
[19] U.S. Department of Commerce, *Measures of Overlap of Income Distribution of White and Negro Families in the United States* (Washington, D.C.: Bureau of the Census, 1970).

[20] Total estimated budget for fiscal 1970 was $1.7 million. Figures supplied by the Office of Minority Business Enterprise, U.S. Department of Commerce.

LOCAL DELIVERY STRUCTURE



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* Option 1: As described above
Option 2: Office of Minority Enterprise would be spun off as a quasi-public corporation
Option 3: AEO would be established in the Department of Commerce

Figure 2

the framework of the free enterprise economic system. To that end, its mission would be to counsel, promote, protect, and provide financial, technical, and managerial assistance for all forms of economic enterprise, urban and rural, that would contribute to the objective of the agency. Such areas as new and existing small businesses would be included, as well as cooperatives, development corporations, financial institutions, investment vehicles, land banks, and ownership participation plans. AEO would seek to reinforce, support, guarantee, and stimulate the operation of the free enterprise system, rather than promoting government ownership or control.

Aid would know no color lines.

Assistance would be made available to all persons and organizations, of whatever social, ethnic, racial or economic background, who had been unable to fully participate in the American free enterprise system.

Underlying the new combined agency would be the following principles:

- The linkage of the Economic Development Administration to the Agency for Expanded Ownership in order to develop the needed economic base upon which the expanded ownership program could be built;

Continued executive support necessary.

- The placement of the Office of Minority Enterprise at a sufficiently high level to assure continued Executive support and interest;
- The inclusion of OMBE with SBA and EDA to secure a broad and coordinated attack on business development in underdeveloped slums and rural areas;

Both motivator and planner.

- A redefinition of the federal office to include such functions as motivator and planner (at the local, as well as other levels), solicitor of funds, allocator of resources, developer of financial and technical resources—and as a linkage between business and government;
- The provision of a new image, enhanced with sufficient funding and the will to promote minority enterprise on a vastly expanded scale;
- A single focus of responsibility—the problems of minority business—and the talents and dedication necessary to produce the support needed from the executive branch to effect changes as needed.

Organizationally, this option would combine the Small Business Administration, the Economic Development Administration, the Office of Minority Business Enterprise, selected Department of Agriculture programs,[21] and the Special Impact Program of OEO into a single Agency for Expanded Ownership. The new organization would be structured as indicated in Figure 2.

The second option.

The second option would provide for the establishment of a publicly funded, privately run national organization that would mobilize and coordinate expanded ownership activities. The Office of Minority Enterprise would be spun off from the newly established Agency for Expanded Ownership to form this quasi-public corporation (see Figure 2).[22] More specifically, the new agency would be charged with the establishment and maintenance of the one hundred local level delivery centers recommended earlier. It would take the form of a not-for-profit corporation, with its board of directors drawn from the various minority groups and committed Anglo-white citizenry. Such an organization might be expected to have more credibility in the minority community than existing governmental organizations.

The third alternative.

The third option would be similar to the first option in that a similar Agency for Expanded Ownership would be established. However, under this option, the AEO would be formed within the Department of Commerce. The head of the AEO would have the title of Assistant Secretary of Commerce for Expanded Ownership, reporting directly to the Secretary. This option, too, would require new authorizing legislation. Only the first option could be accomplished under existing Presidential authority.

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[21] These DOA programs are Economic Opportunity Loans, Farm Operating Loans, Farm Ownership Loans, and Technical Assistance to Rural Cooperatives.

[22] Legislation would be required to establish such a quasi-public corporation.

COMMITMENT OF FEDERAL RESOURCES

No inherent conflict.

A major obstacle to minority enterprise development has been the lack of adequate financial resources to provide the necessary capital, management and technical assistance. The Council, of course, recognizes that a minority enterprise program is only one claimant against government and private resources available to help minority members, and that other programs in the fields of health, education and jobs cannot be slighted. However, the specific commitment recommended is not meant to conflict with the needs of these other programs. Indeed, it is expected that the recommended resource commitments will eventually assist in helping to meet the needs of these other programs by providing more economic resources within the minority communities. Although significant amounts of government funds have recently been provided through grants, direct loans, and loan guarantees, the Council does not feel that the amount of money available in direct aid to minority enterprise is sufficient to make the quantum steps necessary to achieve the goal of significant minority ownership of economic resources during the decade of the seventies.[23]

Direct aid not sufficient.

The Council believes that part of the solution to the problem lies in the creation of numerous, sizable examples of minority enterprise with high growth potential.[24]

Specifically, the Council recommends the following:

(1) A sum of $930 million be appropriated over the next three years to be used by the newly established Office of Minority Enterprise (OME) in the Agency for Expanded Ownership (AEO). That, in subsequent years during the decade of the seventies, additional sums be appropriated at the same or a higher rate to provide substantial assistance in achieving the goal of economic integration. Twenty million is to be used for financing, $170 million for management and technical assistance, $160 million for business and management education, and $40 million for experimental and demonstration projects.[25]

(2) The fostering and/or upgrading of at least 6,000 businesses yearly with an average capitalization of $110,000, many with a growth potential substantially in excess of the average GNP increase of 4.4 percent[26] The 6,000 figure is intended as an average with the program expected to accelerate as it becomes more firmly established.

Some money already available.

Much of this $930 million is available in existing programs. For example, the SBA granted $160.4 million in direct and guaranteed loans for minority enterprise in fiscal 1970. Of this amount, $143.3 million was in direct loans and the balance in guaranteed loans. The total expenditure for minority enterprise loans in fiscal 1970 was about $150 million.[27]

THE UNIQUE DILEMMA OF THE AMERICAN INDIAN

"The first Americans—the Indians—are the most deprived and most isolated minority group in our nation. On virtually every scale of measurement—employment, health, education, housing—the condition of the Indian ranks at the bottom." [28]

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[23] For example, SBA loans and loan guarantees to minority borrowers have increased from 7 percent of the total SBA dollar volume in fiscal year 1968 to 23 percent in fiscal year 1970. In dollar figures, this represents an increase from $41.3 million in fiscal 1968 ($35.9 million SBA share; the difference is in guarantees) to $160.4 million in fiscal 1970 ($143.3 million SBA share). Most of the SBA minority enterprise loans were direct participation or Expanded Ownership loans. Data were supplied by the SBA office of Reports, October, 1970.

[24] A study conducted by the Council shows that SBA loans to minority businesses averaged under 24,000, while those to non-minority businesses averaged under $56,000 during the 12-month period April 1969 to March 1970. It is apparent that most of these loans were Economic Opportunity Loans (EOL) type with a maximum limit of $25,000 and not likely to foster larger, more viable enterprises.

[25] The $500 million could be leveraged about 3.5 to 4 times using standard SBA guarantee treasury deposits.

[26] It is assumed that the allocation of resources between existing businesses and new businesses will be made at the local level, based on locally established priorities and goals.

[27] SBA-supplied data, October 1970. The usual ratio of direct to guaranteed loans for SBA is about 4 to 1, indicating that the banking community may not have been persuaded of the viability of many of the loan packages presented to them.

[28] Presidential Message on American Indians, July 8, 1970. The full text of the address is included in Appendix F.

Substandard housing—few jobs.

The total population of American Indians is about 775,000. Of this number, about 450,000 live on federally recognized reservations, with the balance distributed between non-federally sponsored reservations and urban areas. Approximately 70 percent of the Indian population lives in substandard housing. Almost half are unemployed, a rate many times that of the national average. Health conditions are such that Indians live an average of 19 years less than the national average, and their infant mortality rate is one and one-half times that of the rest of the population.[29]

A measure of self-determination.

Resolving these and other similar inequities born of more than a century of neglect, isolation, discrimination, and racism will require an active partnership of the private and public sectors working in coordination with the Indian communities. A lack of control over programs related to the social and economic development of their race has been a pervasive element of all federal programs since the first Indian aid bill was enacted. With over $400 million in current funds being spent on various federal programs, Indians have, at long last, an opportunity to enter into the management of their affairs. The Council therefore supports the program recommended by the President to guarantee the right of Indians to contract for the control or operation of federal programs, "this control to extend to all types of programs such as education, health care, and economic development." [30]

Also included in the President's program are the following guidelines:

Presidential guidelines.

- Self-determination, without termination of the legal and historical relationship between the Indians and the federal government;
- Restoration of the Sacred Lands near Blue Lake, New Mexico;
- Greater Indian control over federal funds given to local school districts which educate substantial numbers of Indian children;[31]
- Provision of additional funds for economic development, including raising the Revolving Loan Fund from $25 to $75 million and authorizing $200 million for loan guarantees and insurance;
- Allocating an additional $10 million for Indian health programs;
- Extending the responsibility of the Bureau of Indian Affairs to include Indians dwelling in urban areas;
- Creating, through new legislation, an Indian Trust Council Authority to assure independent legal representation for the Indian's national resource rights;
- Raising the status of Commissioner of Indian Affairs to that of an Assistant Secretary of the Interior.

Problems besetting the median population.

Lack of economic development is among the most serious Indian problems. Eighty percent of reservation Indians have incomes below the poverty line, averaging $1,500 per year.[32] Further, Indian communities lack the organization that would make their reservation attractive to outside investment. Characteristically, transportation to and within reservations is poor. There has been little or no accumulation of capital and Indian communities have remained at a subsistence level. To provide substantial sources of capital for Indian communities, the Council recommends adoption of the American Indian Development Bank Act of 1970. This act, introduced by Senators

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[29] Data taken from a research study performed by William Hallett (former Director of Economic Development, National Congress of American Indians) for PACMBE, June–August 1970.

[30] Presidential Message on American Indians, July 8, 1970, pp. 3–4.

[31] This would entail amendment of the Johnson-O'Malley Act. Funding under this Act will be $20 million in fiscal 1970, and 89,000 Indian children will be affected. *Ibid.*, p. 6.

[32] Data taken from a research study performed by William Hallet for PACMBE, June-August 1970.

Bible, Burdick, Cannon, Grand, Harris, Mansfield, McGee, Montoya, Moss. Nelson. and Stevens, provides that an American Indian Development Bank, with assets of $375 million, be established.[33] The purpose of the Bank would be to ". . . assist Indians and Indian tribes in the development of industrial or agricultural facilities, enterprises or projects, and in the development of their natural resources." [34]

Historically, programs aimed at aiding Indians have been disjointed and inconsistent. Thus, the President's Advisory Council on Minority Business Enterprise wholeheartedly endorses the proposed legislation.

—The Council recommends the Administration's recent call for a total, systematic approach to Indian socio-economic development. It is the opinion of the Council that the President's proposed program presents a well-balanced approach to improving the plight of our first citzens and that the program should receive the full support of Congress and the private sector in bringing it to fruition.

PRIMING THE PUMP

Minorities evince a renewed interest in banking.

There are few banks or other financial institutions owned by members of minority groups. Collectively, these total a meager $350 million in assets, less than ten percent of the assets of any one of the top non-minority banks. (See *Fortune 500's* list of the largest financial institutions for 1970.) Current trends are more encouraging. In 1960, there were only ten minority-owned banks with assets of $58 million. In 1970, the figure had grown to 25, with five newly opened. Another four or five additional banks are scheduled to open in 1971. According to the American Bankers Association, there are about 14,000 commercial banks in the United States today with assets over $400 billion. Thus, minorities control less than 0.2 of one percent of all commercial banks, about 0.1 percent of all bank assets.[35]

Minority ownership of other financial institutions is equally disheartening. For example, minority insurance companies have combined assets less than 0.2 percent of the industry total.[36]

Economic development cannot proceed very far without a financial base. As conceived, this base requires the rapid increase of minority ownership, control, and management of large numbers of financial institutions of all types.

—Specifically, the Council recommends that all necessary steps be taken to increase minority ownership and community organization participation in financial institutions such as commercial banks, savings and loan associations, investment banks, and insurance companies. To this end, the Advisory Council recommends that officers of federal and state agencies, such as the Comptroller of the Currency and the Federal Home Loan Bank Board be urged to increase the number of new financial institutions organized, managed, and controlled by minority Americans.

Any strategy aimed at stimulating the economy of minority groups must consider ways to increase the flow of dollars into the minority community. Most of the income which presently enters such communities is earned at low-paying jobs outside the community. The average salary of the non-white is less than that of his white counterpart, and unemployment in the ghetto is normally two to three times greater than the prevailing national employment rate.[37]

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[33] The full text of the legislation is set forth in Appendix F.

[34] *Ibid.*, Section 106.

[35] See "Blacks Build Up Their Bank Power," *Business Week*, (December 5, 1970), pp. 92–94, and Theodore L. Cross, *Black Capitalism* (New York: Atheneum, 1969), pp. 50–55.

[36] Thomas Gleason, "Opening Remarks", Special Meeting of the American Bar Association, *Business in the Ghetto*, (April 11, 12, 1969) pp. 5–12.

[37] As stated by Andrew Brimmer: "While Negroes constitute eleven percent of the population of the United States, they receive about 6.5 percent of the personal income, and they own less than two percent of the assets held by households." Andrew Brimmer and Harry Terrell, "The Economic Potential of Black Capitalism," paper presented before the 22nd Annual Meeting of the American Economic Association (December 29, 1969).

Unemployment in the ghetto exceeds rate outside.

Only a fraction of the income earned by minority individuals enters the economy of the ghetto community and less remains there to form a capital base. A substantial portion of earned income is spent on commodities and services inside the minority community but passes on to absentee landlords or to business owners who live outside the community. Because most of the ghetto apartment houses, stores, and businesses are owned by non-residents, most of the money spent by ghetto residents rapidly reverts to the outside. Virtually none of the income which enters the ghetto is retained for capital accumulation or used to enhance the ghetto economy.

Programs directed at increasing the absolute number of businesses owned by members of minority groups should have a significant impact on the economy of minority communities. The fact that members of minority groups own such a small percentage of America's businesses is a major reason for the lag in economic and social status of minority groups behind white America.

Increasing capacity to produce wealth.

While economic activity is an obvious by-product of business development, the two terms are not necessarily interchangeable. Economic development, for our purposes, can be defined as an increase in the viability of the economy, i.e., in its ability to produce wealth. Thus, a program of "expanded participation" for the minority groups in the economy of this country would encompass the concept of increasing their capacity to produce wealth, as well as their participation as owners of business enterprises.

"Bridges to Human Dignity" speech.

After the President made his "Bridges to Human Dignity" speech, many minority leaders interpreted his remarks as indicating that he advocated a total approach to minority economic development, rather than the generation of only a few minority businesses. Most experts feel that economic organizations which both promote economic development and business development should be encouraged, with the ultimate objective of creating mechanisms which will make the most significant impact on the economy of minority communities.

—The Council recommends the increased use of purchasing power by both the public and private sectors to assist existing minority enterprises and to encourage the establishment of viable new businesses. Its importance as a tool can hardly be overstated. The federal government, alone, procures over $100 billion annually in goods and services. It is particularly important to encourage minority enterprise through the use of contracts and subcontracts in new, rapidly-growing markets for goods and services. (This concept is explored in detail under the Business Opportunity section, pp. 39.)

The Council feels that organizations such as cooperatives, community development corporations and credit unions that are a potentially important means of providing involvement in the economic system should be encouraged by both the public and private sectors.

MORE FACTS NEEDED

More empirical research needed.

A continuing problem in formulating any program for minority enterprise is the lack of information available. Only a few research projects on minority enterprise have been based on empirical evidence. Most of the studies and papers generally available are of a secondary nature, using the rough statistics gathered from the few research projects. In many instances, information has not been collected because it was thought to violate the Civil Rights Act of 1964. Also contributing to the problem is the limited nature of the funds allocated to studies of minority enterprise.[38]

Whereas the Council's research has revealed the general paucity of reliable information available as to the extent, nature, growth, and direction of minority enter-

[38] However, the Council wishes to commend the SBA for its data files which we found to be well-organized and generally quite useful. The Council found this the only collection of statistics which allowed for a comparison of minority- and non-minority-owned businesses. Unfortunately a decision has been made to abolish part of this data base.

prise, we recommend that federally funded research be undertaken to provide data for the implementation of further programs in the area. Such research should include the development of evaluation criteria, both economic and social, to measure the effectiveness of various programs and should, as does the President's small business package, include a program to identify business areas of greater than average growth potential.[39]

GUIDELINES FOR DEVELOPMENT

A useful framework for visualizing the spectrum of business opportunities is a distribution of opportunities along a rate-of-growth spectrum. The graph at its minimum point might begin with existing opportunities yielding a low return (sweatshop labor, marginal employment within the ghetto, or hand-me-down slum business), which can be expected to be in the final throes of existence. The upper range would include sophisticated research and development programs, cultural surveys directed at the state of the arts, and industries which are exhibiting unusually high rates of growth and future growth. In essence, this type of visual presentation would evaluate entrepreneurial opportunities at varying rates of growth.

It must be recognized that every opportunity along the spectrum presents a potential for minority participation in the American entrepreneurial experience, as well as an opportunity to satisfy a variety of long-range social objectives while permitting immediate short-range involvement.

Criteria for evaluation.

The Council has developed the following criteria for evaluating minority enterprise opportunities. If valid in terms of the expressed goal of economic integration, minority group members should be able to participate in these business opportunities without regard for particular ethnic or racial markets; additionally, favored vocations should exhibit a capacity for growth and capital creation while capitalizing upon the skills and knowledge of the population, including the enlarging minority enrollments in the nation's business and technical schools, and upon the growing class of already successful minority group businessmen. Success will be more likely if opportunity is developed in relation to the supply of entrepreneurs and potential businessmen in the area. Particular attention should be paid to developing areas of comparative advantage, such as outreach health care, job training, and communications within the minority community, as well as short- and long-run community development objectives of various types.

A meaningful strategy should focus on higher growth areas.

A comprehensive national strategy of business opportunity exploitation must not limit itself to any single industrial or business sector. Insofar as possible, occupations within areas of lower growth should be structured to provide skill or training inputs to higher growth areas.

No strategy can be meaningful without the participation of minority individuals. And if such a program is to be truly effective, it must be supplemented by education, training, and the dissemination of information describing the opportunities available. Finally, a strategy cannot work if, in placing a premium on minority business survival, it attempts to isolate this concern from the rest of society, failing to match community needs and resources with business opportunities. No strategy can overlook the satisfaction of socially desirable objectives through the possible use of low-growth, perhaps subsidized community enterprises. However, the most neglected area of minority business development has been the high growth areas, capable of growing at a rate substantially in excess of the GNP growth rate of 4.4 percent.

[39] See S. 4316 and H.R. 16644, particularly Title I, Section 103.

—Therefore, the Advisory Council recommends that emphasis be placed on providing greater access to areas of higher growth and comparative advantage, while providing minorities with greater mobility and opportunity for meaningful involvement at all portions of the business spectrum.

Past disappointments have left mark.

Minority participation has been noticeably minimal in the management of public and private organizations. Opportunities to develop and employ managerial skills of this kind have generally not existed. Lack of opportunity for managerial employment has, in turn, discouraged interest in management training. Less than 2.7 percent of all managers and businessmen in this country are members of minority groups, and present forecasts do not project much improvement by 1975.[40]

—To correct this discrepancy, the Council recommends that corporations commit themselves to hiring, training, and promoting minorities at every level of management, in all professional and technical occupations.[41]

This commitment must be promoted at every stratum of the organization, via such methods as an internal reward system geared to the number of minority people employed and promoted into management, professional and technical positions. Special attention must be given to assure that minorities are not segregated into "minority-type" jobs, often staff jobs which do not lead to meaningful entrepreneurship or managerial positions.

Recognizing that internal corporate programs for management development are the ladders leading to promotion and opportunity, it is recommended that special emphasis be placed on minority participation in such training and management development programs.

It is strongly recommended that a substantially larger number of minority group leaders be appointed to the boards of directors of major corporations. It is further recommended that a specific focal point for this responsibility be established to coordinate, monitor, and evaluate this program for management.

Draw upon wisdom of the community.

Since it is essential that corporations maintain good relations with their community, it is suggested that company executives draw upon the advice and experience of minority group members, including businessmen and community leaders, when electing their corporate directors. Properly employed, such a policy would serve to strengthen the company's position within the community, contributing to improved relations in regard to financial, marketing, and production matters. Minority group representatives elected to the boards of directors would contribute their own special expertise, intimate and meaningful knowledge of the community structure. Such forward looking policies would serve in time to correct the unfortunate statistics that exist at the present, with minority group members accounting for less than two-tenths of 1 percent of all the directors of the country's five hundred largest companies.

It is further recommended that this corporate commitment be supplemented by federal assistance. At present, federal fair employment practices often tend to be duplicative and inefficient.

Importance of state and local government.

—Recognizing the importance of creating more opportunities for minorities at all levels of management, and the need to eliminate redudant fair employment examinations by federal agencies, the Council recommends that the enforcement of all federal fair employment programs be consolidated within a single agency. This agency should be provided with sufficient regulatory authority and operating funds to accomplish these objectives.

Inherent in our recommendations for the establishment of local delivery systems and an expanded role for the private sector is a recognition of the need for further decentralization and localization of minority enterprise programs at state and local levels. Government units with substantial minority populations must become active partners if this program is to achieve success, for many business, financial, and

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[40] Forecast made by the economist, Otto Eckstein, 1969.

[41] The Council particularly endorses Title I, Section 102, (b), (6), of the S. 4316 and H.R. 16644, which encourages the establishment of management training opportunities in existing businesses.

management assistance opportunities exist in state and local governments. Together, these levels of government account for over 37 percent of the tax total annually.[42]

—To implement this philosophy, the Council recommends that each state and major city, having a substantial minority population, establish an Office of Minority Enterprise to coordinate state and/or local government programs.

These state coordinating offices would work closely, or be affiliated, with the local level delivery system office or offices, and the local governmental coordinator would work under the direction of the executive director of the local level delivery center.

In addition to coordinating state and local governmental activities, these offices would seek to channel a reasonable portion of procurement contracts to minority suppliers; provide for the deposit of some state funds in minority financial institutions; assure educational and training opportunities in state and locally operated schools, colleges, and universities; and provide for state matching of private participation in MESBIC's and similar minority venture capital organization.[43]

—Recognizing the need for broad involvement and commitment from all sectors if minority enterprise is to be successful, the Council recommends that clear emphasis be placed on minority business development as a goal, through the establishment of incentives for business success.

In particular, the Council wishes to stress the importance of the role of business on a broad scale. To further this activity, we suggest that the government provide a bonus to non-grant sponsors of loan packages and technical assistance programs. The amount of the bonus would depend upon the degree of success attained by the minority firm recipient.[44] A fixed schedule of bonuses would be linked to such indicators of business success as audited net income, number of minority persons employed, and years in business.

SUMMARY OF RECOMMENDATIONS

In Summary.

1. Substantially increased minority ownership of economic resources in urban and rural areas should be made a major national priority for the decade of the seventies.
2. The President's small business legislative package (S. 4316 and H.R. 16644) should be speedily reintroduced, enacted, and implemented during the 92nd Congress.
3. Management and business training, both formal and on-the-job, should receive substantially increased support by public and private sectors.
4. One hundred local level delivery centers should be established over the next three years to provide "one-stop" packaging service for the delivery of financial, management and technical resources.
5. Serious consideration should be given to federal restructuring in a manner which will more effectively utilize federally controlled resources.
6. A federal commitment of $930 million for the initial three-year period is needed to make rapid progress toward the goal of significant minority enterprise development.
7. The Council recommends implementation of the President's program for American Indian economic development and the enactment of the American Indian Development Bank Act.

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[42] *Survey of Current Business*, 1970.

[43] The size of procurement deposits, educational opportunities, and venture capital matching should be in proportion to the size of the minority population to be served. See Appendix D, for a brief discussion of the Wisconsin program.

[44] "Non-grant" status is used, within this context, to denote a private organization not receiving government funding for its work in minority enterprise.

8. Since economic development cannot proceed very far without a financial basis, there is an important need for a larger number of financial institutions owned and managed by minorities.

9. A greater commitment of public and private resources is needed to develop organizations, including cooperatives, community development corporations, and credit unions, which will provide an opportunity for wider minority involvement.

10. The Advisory Council recommends that federal research be undertaken to provide a data base for the implementation, operation, and evaluation of the proposed comprehensive minority enterprise development program.

11. The Council believes that all necessary steps should be taken to make readily available to minority entrepreneurs the full spectrum of business opportunities, particularly areas promising greater than average growth potential.

12. It is recommended that purchasing power become a potent tool, employed by both public and private sectors to strengthen existing minority enterprise and to encourage new activity in the field.

13. Opportunities for minority employment at all managerial and professional levels should be substantially increased.

14. State and local governments should become more involved in fostering and assisting minority enterprise.

15. A fixed schedule of bonuses and/or tax credits linked directly to indicators of business success should be paid to non-grant sponsors of minority businesses.

BUSINESS OPPORTUNITIES

Opening up opportunity levels.

The Business Opportunities Task Force has examined various ways to accelerate the quantity and quality of minority enterprise. With the following recommendations, we have tried to steer the minority entrepreneur into larger, more profitable areas of endeavor. The strategy is to develop minority businesses which are capable of generating higher levels of performance. Both new and existing businesses would be involved.

As minority businesses move toward greater profitability, they will be able to make a larger contribution to the economic development of their own community. They will also serve as an attractive example to stimulate other minority group members to consider business as a career. With success, it will be possible to attract greater support from the national business community, thus making financial and management resources more readily available.

Within this framework, the objectives are to increase the growth rate of minority businesses and the number of quality minority businesses and to open up the opportunity for minorities to engage in capital intensive businesses. Particular attention should go toward developing businesses which involve *substantial, new technology* and firms which produce large numbers of career positions, while serving the commercial needs of the communities. Companies which both create new skills and capitalize upon the existing talents of the communities should be encouraged, as should endeavors engaged in building a capital base in the minority community.

Finding the key to the factory.

The members of the Task Force have examined manufacturing to determine how minority entrepreneurs' entry into the field could be eased. A recent study indicated that while 6.9 percent of the nation's total businesses are in the manufacturing area, only 1.2 percent of minority-owned businesses fall into this category. In the main, the businesses represented by the 1.2 percent figure are quite small and do not account for anything approaching the five-to-one ratio in the comparison above. There is no question that there is a need to increase the participation of minority business-

men in this field,[45] particularly in light of the fact that manufacturing offers numerous areas of high-growth potential, such as plastics and optics.[46]

Easing the process of entry to manufacturing.

Since manufacturing is a very complex area, opportunities for fledgling minority entrepreneurs could best be provided through arrangements whereby the minority member would learn the skills of the trade from an existing manufacturer. Eventually, the employee would acquire the skills to establish his own independent firm. Existing manufacturers could be encouraged to participate in such a spin-off/turn-key program if they were rewarded with incentives such as tax credits and outright grants.

The Council recommends the following program as providing greater opportunities for minority group members in manufacturing:

Expansion of the SBA 8(a) Program, with the three-year incubator period increased to five years. If minority firms were encouraged to use government contract work to diversify into commercial markets, they could rapidly reduce their dependence on the government market.

The creation of a tax incentive program could provide the impetus necessary for firms of various types and sizes to participate in spin-off/turn-key and joint-venture operations.

The establishment by the private sector of joint ventures with minority group members for the production of key components that would create "real" minority producers.[47]

AREAS OF HIGH GROWTH

Ferreting out areas of high growth potential.

In effect, all of the Council's recommendations are designed to increase the profitability of minority business by improving access to specific areas and by improving the general economic environment of all minority businesses. However, there are specific suggestions that will make it easier for minority entrepreneurs to enter more profitable businesses.

In the decade of the seventies, day care centers and paramedical facilities are examples of business opportunities with relatively low-skill requirements and high-growth, high-profit potential. Of course, minority members with sophisticated technical skills should be encouraged to use them profitably in high-technology areas.

In the past, the public and private sectors have cooperated to create highly profitable businesses. Government contracts in the late 1950's and early 1960's helped to create a demand for the outputs of highly technical businesses. The Council suggests that government contracts could also be used to encourage the growth of the minority entrepreneur in the decade of the seventies. An expansion of SBA's 8(a) program, through which SBA obtains government contracts and then subcontracts these to minority entrepreneurs, would help the minority businessman to receive the same type of governmental assistance that was received by non-minority businessmen in the 1950's and 1960's.

The federal role.

Within this area, the Council recommends that projected areas of growth where federal support will be a factor be identified. Such areas as ecology, health care, and education, in particular, should be emphasized, as of vital concern both to the minority and majority communities.

That 8(a) subcontracts be made available in new growth, high technology areas with continuity of funding ensured for the next decade.

That government personnel be educated to the need for initiating and assisting minority enterprise in areas of high technology and new growth.

That the number and quality of minority owned financial institutions be increased through lessened discrimination in the licensing process and increased education in the requirements for forming a commercial bank, savings and loan association, and other financial institutions at the state or federal level.

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[45] U.S. Small Business Administration, Office of Planning, Research, and Analysis, *Distribution of Minority-Owned Businesses*, unpublished report prepared by Albert Reiss (Washington, D.C.: SBA, June 1969).

[46] *BLS Survey/Growth Areas, 1969*. See Appendix A for a discussion of this BLS survey and its implications for minority enterprise development.

[47] Thus, the Council supports Title I, Section 102(b) of S. 4316 and H.R. 16644 which provide for the use of incentives to encourage subcontracting by medium and larger size firms.

There are many minority group members who possess skills which could be upgraded to enable them to become general contractors and subcontractors. Additional training in the crafts, eased access to bonding, and expanded lines of credit would enable a larger number of minority entrepreneurs to enter this field. The construction industry is projected as an area of high growth in the 1970's, with an average 2.2 million or more units a year. This makes it an attractive field for minority group enterprise.

Focusing on the construction industry.

To provide greater opportunity in the construction industry, the Advisory Council supports the following changes in policy:

Bills S. 4316 and H.R. 16644, providing for the indemnification of commercial sureties against 90 percent of any losses incurred on performance and payment bonds on certain federal construction projects up to $500,000.

The SBA pilot project, establishing a revolving line of credit for minority contractors up to $350,000. Should this prove to be successful, it is recommended that lines of credit extended by commercial banks to minority contractors be guaranteed by the SBA in a manner similar to the 90-percent guarantee of other business loans.

Federal single-payment loans to qualified contractors, with the term not to exceed ten years. These loans would be subordinate to the interests of surities and other creditors. Alternatively, the federal government could purchase either the preferred stock of either the contracting firms themselves or that of financial institutions chartered by the government for that purpose.[48]

The provision of federal funds to help establish minority contractor associations with professional staffs and other management and technical assistance programs for minority contractors and subcontractors. The Minority Contractors Assistance Program, developed by the National Urban Coalition, provides a tested model upon which such organizations might be based.

That contractors with federal contracts be required to employ minority craftsmen in proportion to the area's population and minority apprentices. Present statues and regulations be changed to authorize training by the employer.

The enactment of legislation that would prohibit any action by individuals or organizations which would inhibit or frustrate efforts by contractors to comply with those requirements.

A change in the administrative regulations which govern the operation of the SBA 8(a) program to assure that the best qualified of the several interested minority contractors be chosen for negotiation of construction contracts. The contract should be limited to a maximum of $50,000 and a contractor should be held to only one 8(a) contract at one time and allowed to participate in the 8(a) program for no longer than five years. Further, a contractor should be required to secure continuing management and technical assistance from an individual or organization experienced in the construction industry.

LINKING SUPPLIER AND DISTRIBUTOR

Developing a profile of suppliers.

Many more business opportunities for minority entrepreneurs would be created if the purchasing departments of existing businesses made it a policy to buy more from minority owned firms. Both goods and services could be purchased in almost any area with a significant minority population. If representatives of the corporations in an area got together, they could set as a goal the development of a profile of suppliers which would reflect the population distribution for that city.

Proposed SDOP's would set goals and timetable.

In a more direct way, the corporation could tailor its purchasing program to include financial and technical assistance for minority suppliers. Such a program could be implemented if corporate firms maintained a list of items that could be readily directed toward existing minority enterprise and adopted a policy of purchasing a

[48] See S. 4316 and H.R. 16644, Title III, Section 8.

proportion of their goods and service needs from minority firms.[49] A convening organization would be formed that would create an alliance including the concept of Supplier and Distributor Opportunity Program (SDOP). Top corporate officials would need to be involved in order to ensure continuing commitment, although much of the day-to-day work could be done by company purchasing agents. The proposed Supplier and Distributor Opportunity Program could set goals and timetables for movement toward equal supplier opportunity, both in terms of number of companies and dollar volume of business. GSA set-aside program should be increased to $200 million per year to facilitate the entry of minority suppliers into the program.[50] The DOD set-aside program should be increased commensurably with the total procurement budget.

The Franchising Phenomenon.

Franchising can offer the minority entrepreneur certain unique advantages. Nationally known products have strong appeal. Combine this factor with a relatively small capital investment and the availability of management assistance, and the franchisee has an advantage over his independent counterpart. On the other hand, the franchisee must be certain that his profit margin is attractive and that the other terms of the contract are fair.

In regard to franchising, the Council additionally recommends that:

Minorities should consider of franchising not only as a supposedly easier road to owning and ing a business but also with a view toward filling part of the vast retail-service gap which exists in the minority communities, for example the small number of paint, hardware, and auto supply stores.

It be considered a separate program under SBA loan programs, with approximately $10 million yearly earmarked for highly select operations, reflecting the aforementioned retail-service gap.

The license, an important tool for business development.

Business opportunities for minority entrepreneurs can be created by making licenses for certain types of enterprises more readily available. For example, a very small percentage of the licenses held by radio stations, by interstate buslines and taxi companies are minority owned. This situation could be improved if minority entrepreneurs were made aware of the opportunities that existed and were given guidance in methods for obtaining these licenses.

Crime protection: an urgent need and significant business opportunity.

It is therefore recommended that government licenses in such areas as radio, television, and interstate passenger carriers be made available on a broad scale, and that such requirements be revised, if necessary, so that minorities could better avail themselves of the opportunity afforded.

The environment in which most minority entrepreneurs operate is often more hazardous than that of the non-minority entrepreneur. It becomes necessary, therefore, to protect the minority entrepreneur from the dangers of his environment that may limit his chances of success. This might take the form of additional financing in a business loan for the purchase of crime protection equipment or services. With very few exceptions, these services and goods could be provided effectively by minority owned firms. It is therefore suggested that minorities be encouraged to own and operate more private security firms, burglar alarm companies, and, in general, provide other forms of protection needed by the business and residential community. This type of business is singled out because of the tremendous practical need and because its growth could reduce the costs of insurance coverage.[51]

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[49] A number of corporations presently maintain a continuing relationship with minority subcontractors and suppliers.

[50] The General Services Administration (GSA), the major procurement agent for non-defense agencies and bureaus of the federal government, has established a program of contract set-asides for certain types of businesses such as small businesses and businesses located in economically depressed areas. The DOD has established a similar program.

[51] See Finance recommendation on insurance, p. 50.

The retailing industry provides numerous opportunities for minority enterprise. However, as with any other business endeavor retailing is fraught with pitfalls for the uninitiated.

Supplier credit often crucial for retail business.

As a large percentage of the retailer's investment is in inventory, the supplier credit that can be made available to the retailer is often crucial to the success of his business. If management assistance, as well as trade credit, is extended to the minority retailer, his chances of success will be greatly enhanced. The formation of buying syndicates by independent retail stores, which jointly purchase goods and services, as well as engage in unified promotion and distribution, can result in much greater profit margins. Retail stores can also join together to purchase accounting and crime-protection services, as well as other staples like stationery supplies.

MRA a model plan. Long term credit necessary.

The Men's Wear Retailers program (MRA) was devised as a model to increase the number of minorities in viable retail service businesses.[52] It represents a trade association's commitment to increasing the number of minority group members within the industry, through the provision of trade credit and management assistance from members of the association.

The MRA plan can be adapted to other businesses if certain factors are present. Chief among these is participation by suppliers with well known merchandise. Brand name merchandise is especially important in the minority community, particularly in the field of clothing. In the case of women's wear, where labels do not seem to be as important, it may be more difficult to assemble a program which involves the extension of credit by major manufacturers.

Initially it is suggested that the concept be tried in such retail areas as hardware, grocery, music, liquor and women's wear, in areas that can be expected to have a heavy sales volume in minority communities.

Credit arrangements for the purchase of merchandise vary from industry to industry. In the case of men's wear, in which inventory has a relatively slow turnover, long-term credit is a necessity. Women's wear, however, has a considerably more rapid turnover, and thus the credit program could be of shorter duration. In such industries as liquor, in which some manufacturers and distributors place goods on consignment, the program would have to ensure that consignments were being made available to minority-owned stores on the same basis as to non-minority stores.

A centrally located coordinating office is necessary for such a program. In the case of MRA, the office is located in Washington, D. C., where it can assist when appropriate in streamlining loan application procedures involving federal agencies. Because many retail associations have headquarters in Washington, other groups would find this arrangement convenient and economical.

Trade associations offer many benefits.

Given the advantage of a trade association assistance program for minority group members engaged in retailing, the Council recommends that:

> A trade association participation program be formed that would make a total commitment to placing more minorities within the various industries represented.
>
> Federal funds, in the amount of $100,000 to $200,000, be allocated for each participating industry group, as a partial subsidy for creating two-year pilot projects. These could be refunded for an additional two years if the project proved successful.
>
> Minority retail store owners form a trade association to provide better, more effective representation and improved opportunities for joint purchasing and promotional activties.[53]
>
> An SBA line of credit to minority entrepreneurs participating in trade association programs be designed which would improve the quality of minority retail-service establishments.[54]

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[52] MRA assists new inner-city businessmen who wish to establish men's stores and helps them to obtain very favorable credit terms from manufacturers. In addition, the SBA has agreed to subordinate its loans to the manufacturer who has supplied the inventory so that the manufacturer would have a preference in case of failure.

[53] See National Strategies and Goals, and Management and Technical Assistance sections, pp. 21 and 22.

[54] See Finance Recommendations, pp. 46.

Negative factors which must be considered within the retailing field include some manufacturers' failure to extend credit, particularly in the case of highly styled clothing; the failure of a credit extension to be significant if the accounts receivable of the manufacturer are factored to a third party; and the high insurance rates which victimize businesses within the inner city. These problem areas need more study before effective corrective measures can be taken.

Negative factors in retailing

In summation, the Council offers the following observations:

1. Although manufacturing represents an important area for enterprise development, it has traditionally been largely closed to minority entrepreneurs.
2. There is an urgent need to provide greater opportunities for entry into areas of higher growth potential to leverage the investment in minority enterprise.
3. The construction industry offers many opportunities for the development of minority enterprise.
4. Many corporations could provide significant assistance for minority enterprise through expansion or creation of minority supplier purchasing programs.
5. Franchising can offer the new minority entrepeneurs some unique advantages, but it also contains some potentially serious pitfalls that must be avoided.

EXPANDED PARTICIPATION

The great majority of Americans, whatever their cultural backgrounds, do not aspire to become entrepreneurs. Even though they are content to remain employees, they are, nevertheless, likely to want to share in the ownership of the nation's capital resources.

The Advisory Council feels strongly that a program to promote minority business enterprise must help the wider minority constituency, as well as the individual. We believe that this can be achieved through Expanded Participation Organizations or EPO's, which would afford individuals a form of capital ownership without requiring them to become entrepreneurs. These organizations can take many forms, ranging from relatively traditional corporate profit-sharing and employee stock option plans to credit unions, savings and loan associations, and real estate investment trusts, as well as cooperatives, local development and community development corporations.

EPO's can benefit the wider community.

The varied forms that may be assumed by the EPO enable minority members to participate in the economy at a higher level of sophistication than as mere wage earners. Some types of sophisticated EPO's are even capable of generating such a degree of community involvement in economic activity that they could serve to spark a crucial change in attitudes. In addition to their potential for promoting community development, EPO's will be able to advance certain desirable social objectives. They can become important vehicles for promoting community involvement in decision-making, the provision and expansion of social services, the development of a social, economic, and political base for local self-determination, and the creation of links with majority organizations.

Social change often promoted.

In their efforts to close the tremendous gap in entrepreneurial and developmental activity between minority and majority communities, expanded ownership organizations may confront a number of problems. One of the most frequent relates to the size of the operation. In the past, federal government policy has tended to foster small businesses with the least chance of success and, in the case of territorial limitations, has severely restricted the market area available to EPO operations. Another characteristic difficulty has been the securing of adequate funding. EPO's do not have access to massive inflows of capital investment from any source, public or private. A third problem area relates to establishing a balance between community and business obligations. Even though programs engaged in charitable or political functions within the community are usually not expected to attain a high degree of economic success, EPO's are often expected to undertake direct public service in addition to showing a profit in their other pursuits.

Specific problems faced by EPO's.

Tensions that may develop.

Tensions may develop between the managers of minority business enterprises and the EPO which spawned and perhaps owns or invests in the enterprises. Likely areas of friction include the distribution of profits, and social-service functions, as well as other matters such as personnel, location, and choice of suppliers. Disagreements may also develop over the allocation of returns from investments: whether they should be issued as dividends, reinvested, or earmarked for charity.

Even though a major attempt may have been made at community involvement, the minority community may feel that it is excluded from EPO activities. This can happen if members of the minority community feel that the sole interest of the EPO lies in business development and in the creation of an elitist group. If this impression is permitted to exist, minority members will be unwilling to participate actively in EPO's due to distrust, resentment, or apathy.

Credit unions can provide greater access to money.

A major problem of the poor is the unavailability of low cost credit. Credit unions have sought to redress the situation, but because of limited loan capital these credit unions share investments have been limited to their economically disadvantaged membership. When low income credit unions have acquired loan capability through the investment of outside capital, they have been able to provide greater service to the poor through the expansion of their low-cost loan service. This has also resulted in a dramatic increase in members' share investment through savings realized as a result of the increase in credit union service. In California and Michigan, where credit union laws permit the investment of outside capital, results have been encouraging.

In addition, there are many affluent, federally chartered credit unions throughout the country which have large surpluses which they invest in other financial institutions such as banks and savings and loan companies. Many of these credit unions would welcome the chance to assist low-income credit unions by investing their surplus funds in shares or certificates of deposit. Others would do so if the certificates of deposit were backed by a federal guarantee. Similarly, there are many educational, charitable, and other eleemosynary institutions with funds to invest in the economic development of poor neighborhoods. None of the investments just outlined is allowed under the provisions of the Federal Credit Union Act.

New legislation needed.

To correct this situation, it is recommended that credit unions be strengthened to make them effective vehicles for minority economic development in the following ways:

The Federal Credit Union Act should be amended to encourage federal credit unions to invest in shares of other federal credit unions, and to accept federally guaranteed certificates of deposit from other federal credit unions and other institutions.

The Act should also be amended to permit federal credit unions to make loans of up to twenty years duration.

The U.S. government should provide share insurance for money invested or deposited in a credit union, much in the way that the Federal Deposit Insurance Corporation insures deposits in banks and savings and loan associations. This insurance would cover the first $20,000 of deposits.

CAPITAL FORMATION DEVICES

Devices for the formation of capital.

"In the ghetto the usual generation of capital funds in the form of personal savings does not occur, since the slum dweller lives on an economic ragged edge where all money is spent to satisfy basic needs of human survival." [55]

This failure to accumulate capital from savings has precluded the creation of minority-owned, community-based capital institutions. As a consequence, the wide-ranging credit needs of millions of people have not been met. The general absence of traditional capital institutions has helped to support the exorbitant interest rates with which ghetto dwellers are often victimized. Whatever meager savings do exist are

[55] Theodore L. Cross, *Black Capitalism* (New York: Atheneum, 1969), p. 57.

characteristically dispersed throughout the community, unable to meet the community credit needs for housing construction, business development, or personal consumption.

The special problems of the inner city.

The generation of an extensive capital resource base is crucial to any developmental program for the inner city. An effort of this magnitude and importance will require the support of the federal government. Of course, the benefits of such a developmental plan to minority communities would be enormous. In addition to fostering critically needed financial activity in minority communities, it would provide minority group individuals with a stake in the system and, ultimately, with collective control over the resources of their communities. In time, the community itself may be restructured, as successful concerns attract the flow of outside capital.

Meeting the challenge.

Consistent with the Council's evaluation of priorities, we feel that efforts should be undertaken without delay to develop the minority-owned capital base of minority communities.

Recognizing the important role that commercial banks, savings and loan associations, and mutual savings banks will play in the formation of a significant minority community capital base, the Council recommends that all necessary steps be taken to increase minority ownership and community organization participation in financial institutions such as commercial banks, savings and loan associations, mutual and investment banks, and insurance companies. To this end, the Council recommends that federal and state officers and governmental officials, such as the Comptroller of the Currency and the Federal Home Loan Bank Board, be urged to increase the number of new financial institutions organized, managed, and controlled by minority Americans.

Further, that the federal government match, on a broad scale, the grants and contributions-in-kind from community residents and organizations.

By definition, the CDC is broadly based.

An increasingly common form of EPO is the Community Development Corporation or CDC. A CDC may generally be defined as a profit or non-profit corporation which aims at broad economic improvement of a particular geographic area, with emphasis on expanding ownership opportunities, jobs, and incomes for the people of the area. By definition, it seeks a broad base of participation and support from community residents in the implementation of its various programs for social, educational, and recreational development, in addition to its revenue-gathering enterprises.

CDC's are of three types.

Basically, CDC's can be divided into at least three types. The first type, performing a technical assistance role, is concerned with attracting outside investment and with generating privately-owned businesses within the ghetto area. These new firms would function independently, and would not be required to repay their debt to the parent CDC.

The second type of CDC would be an outgrowth of what is expected to be the economy's increasing prosperity stemming from the creation of partially or wholly community-owned businesses. The control retained by the generating CDC would be commensurate with its degree of financial involvement. Returns would be reinvested by the CDC in other programs deemed worthwhile for social and economic development.

The third type of CDC would be entirely community owned. It would spawn businesses over which it retained control. Income would flow back to the CDC and community investors. If outside investors were involved, they would also receive dividends.

As a vehicle for development.

In keeping with the belief that the CDC is a flexible and important vehicle for community development, the Council recommends that the CDC concept be adopted and supported as an important vehicle for minority economic development.

Further, in creation of the national delivery system, the Council suggests that a high national priority be assigned to such organizations and that funding, substantially in excess of

present levels, be assured. Methods of inducing private capital investment should be explored in depth through the medium of the Opportunity Funding Corporation.[58]

Further, the Council feels that the CDC's and their affiliated organizations should be given priorities in entering governmentally assisted businesses related to their own communities.

Tangible participation in redevelopment.

This would serve to ensure CDC participation in the massive redevelopment of inner city neighborhoods, encouraging the people who lived there to actively participate in the redevelopment process, and assure them a fair share of the profits from the overall renovation program. The same principle should also be applied to the provision of health care, welfare, transportation, commercial, and other services. Organizations undertaking these projects should be made eligible for government assistance under all available programs.

In order that expanded participation programs be assured of continuity in planning and operation, it is suggested that they be transferred to a national development corporation. This corporation, which would likely be composed of both public and private sector members, would function as a part of the delivery system. As such, it would be able to receive public and private funds as well as technical assistance. This is recommended as a long-term legislative goal. Further:

Expanded activities for the CDC.

—To extend the range of activity for CDC's, the Council recommends that OEO seek legislation amending its requirements that funded projects and facilities be located exclusively in special impact areas, if it is determined by OEO that CDC control and overall community benefit warrant such exception.

Rural development.

The basic development of our nation's rural areas is an unfinished task. Its failure is particularly felt by the large numbers of minority group members who live in the country, often more disadvantaged than their urban counterparts. In light of this, the Council feels that a strategy for the development of minority enterprise must place special emphasis on rural areas.

—Thus we recommend that a full national commitment to the development of viable rural enterprise be articulated and implemented.

Varied incentive program.

A special incentives program could be utilized to encourage new or expanding businesses to locate in rural areas with a substantial minority population. These incentives could take the form of transportation subsidies, special training programs, subsidies for housing, roads or rail facilities, and, in some cases, for special community development projects.

It is further proposed that the government should, by administrative action, provide loan terms and conditions to community development enterprises, run or controlled by organizations such as cooperatives and community development corporations, comparable to those it offers to other small enterprises. This would have considerable impact in rural areas where cooperatives have provided minorities with an opportunity to organize economic development efforts.

Recommendations for improving the opportunities open to American Indians in rural areas are discussed within the National Goals and Strategies section (pp. 31–33).

FINANCE

A more flexible approach to financing.

The adoption and implementation of the philosophy underlying the Economic Opportunity Loan, the loan guarantee and the MESBIC programs, forcefully illustrate that more flexible approaches to the accumulation of capital are critical in the development of minority enterprise. These three programs attempt to deal with the primary financial obstacles to the formation and growth of minority business: the supply and augmentation of equity capital, and the encouragement of greater sources

[58] See discussion of OFC, pp. 6 and 47.

and uses of debt capital. They have also prompted investigation into related financing and other problematic approaches to the financing of minority businesses.

An unhealthy climate for business.

Minority financing is disproportionately affected by general economic downturns. Sharply constrained money markets result in unemployment and lowered earnings. Blight is a natural outgrowth of urban decay, and its progeny count among them an increased crime rate and social unrest. Both contribute to an unhealthy climate in the business community. Chain store operations are not slow to take advantage of the situation. Typically, the clientele of a retail establishment in the ghetto is rated high-credit risk, making accounts-receivable financing costly or impossible. Usually the marginal nature of such businesses has turned away trade credit sources, in turn restricting inventory build-up, and resulting in reduced sales, and so on.

Developing minority-held banks.

Recognizing the valuable role played by financing institutions in supplying and attracting capital, the Council recommends that a high priority be placed upon the development of minority-owned financial institutions.

In particular, the Council suggests the strengthening of minority-owned banks, proposing, as an immediate goal, a joint effort by the private and public sectors to generate $100 million of new deposits for minority-owned banks. A target level of deposits should include a sum equal to .025 percent of major corporations' current assets.[57] Federal agencies involved in collecting monies for the government will also be approached to actively support this program.

Equity capital and subordinated, long-term debt in a company's capital structure have the dual role of providing a financial cushion for unexpected costs or losses and for attracting debt capital to the business.

Savings do not afford needed base.

The equity requirements of business ventures rely on having sufficient savings to make long-term investments. Due to the historical poverty among minority groups, sufficient savings have not been developed that would permit the borrowing or investing of savings for venture capital. This has had the effect both of discouraging business formation and of limiting business activity to marginal enterprises which require little entry capital.

Any strategy for developing minority business activity must deal directly with the problem of securing scarce venture capital for such businesses. To this end, we recommend that the flow of long-term, subordinated debt and equity capital to minority business be stimulated.

—The activities of the Opportunity Funding Corporation, as sponsored by the Office of Economic Opportunity, should be supported with additional funding. This experimental program would provide data on how to stimulate the availability of capital and credit in low-income communities. One type of OFC demonstration program buys loan portfolios of minority financial institutions, such as credit unions and MESBIC's at some discount, repackages them, and then issues them, backed by OFC guarantees, to such traditional long-term investment markets as insurance companies and pension funds. These new activities would be very similar to current FNMA operations with regard to home mortgages. The Council recommends that these programs, if successful, be implemented on a larger scale to increase greatly the flow of venture capital to minority firms and EPO's.

Weakness of the MESBIC program.

The MESBIC program is a joint attempt by the federal government and the private sector to supply venture capital to minority firms. Established by a private corporation, its capitalization, involving a minimum investment of $150,000, is matched on a two-to-one basis by SBA. A weakness of this program is that the MESBIC's long-term loan commitment (a minimum of five years) quickly ties up venture capital. We propose that, if the OFC concept of repackaging proves successful, capital could be kept flowing to organizations like MESBIC's by linking their loan portfolios to traditional long-term investors like life insurance companies and pension funds.

[57] .0025 percent (¼ of one percent) of current corporate assets is equal to about $100 million, *Fortune* 500.

A viable alternative, not mutually exclusive, would involve the guarantee of equity financing by the SBA or other quasi-government body. This would serve to create a government relationship with investment banks, in addition to the prevailing relationship with commercial banks.

Another weakness of the present MESBIC program is the failure to provide for operating expenses. This is particularly onerous since MESBIC's are not likely to generate very much profit during their initial five years of organization and may, in fact, experience substantial losses due to client failures, slowness in repayment of loans, or slow growth of equity investments.

It is therefore recommended that the government provide a direct operating subsidy for larger MESBIC's to cover overhead and personnel costs for the first five years of their existence.

Assessing "futures".

Contrasted with the commercial banker, the investment banker, in examining candidates for financing, bases his judgment on an assessment of "futures". In the mainstream of American economics, the investment banker has been the traditional provider of "venture capital". It would seem obvious that the government should look toward this sector to provide venture capital for minority enterprise. To date, however, there has been no concerted effort in this area.

Consideration should also be given to a government guarantee of equity investments in minority business. Since an equity investor has the potential for great gain, as contrasted to the finite returns of a loan, investments of this type would not require as great a guarantee percentage as would minority business loans. Thus, the government might find it only necessary to guarantee 75 percent of the amount. It would not have to go as high as the traditional 90 percent because the reward incentive in this case is much greater. The Council recommends that AEO or some quasi-governmental body guarantee 75 percent of book or market value of equity investments.

Another way of infusing venture capital into minority businesses is that suggested by the Wisconsin Plan for Small Business Investment Companies, through which privately-owned, SBA-chartered venture capital firms have helped small businesses. Although in its original version no special emphasis was placed on the development of minority business, the Plan can be readily adapted to this end. Under this plan, the state matches investments made by small business investment companies in the state. This serves to attract other venture capital. Thus, both the state and the SBIC get significant leverage on funds. The Council recommends hat this plan be adopted by all states with substantial minority populations, with special emphasis upon generating minority enterprise SBIC's.

Capitalization of at least one million.

The experience with SBIC's has indicated that capitalization of at least one million dollars is necessary if such firms are to have a substantial likelihood of surviving.

Since venture capital firms specializing in minority investments, such as MESBIC's, are expected to be less profitable than the usual SBIC's (as the minimum required capitalization of MESBIC's is only $150,000), the possibility of numerous failures and widespread disenchantment with such efforts is very real.

It is with this in mind that the National Advisory Council on Minority Business Enterprise strongly recommends that firms investing venture capital in minority businesses be strengthened and their risk of loss be reduced.

Given the substantially higher profitability found among SBIC's with invested capital of one million dollars, the Council strongly advocates that the SBA provide six-to-one matching funds for MESBIC's of one million dollars or more. The limit for such matching of funds should be increased to twenty million dollars. Also, MESBIC's should be encouraged to pool their resources, spreading the potential of risk as well as developing a larger investment base. The federal government could foster cooperative action through the provision of additional matching funds.

MESBIC's should be encouraged to have their programs managed and coordinated through the local level delivery office in order to avoid duplicate management and overhead costs and to provide a greater concentration of expertise in minority enterprise investment.

Channeled through the local delivery office.

Various biases against making loans to minority group members have resulted in limiting the availability of debt capital to the minority businessman. In minority owned firms, debt is usually short-term and can lead to serious cash flow problems, owing to rapid amortization schedules and high interest rates.

Even with broad equity-type support, minority-owned businesses will not be financially viable unless they can participate in all the traditional financial activities open to other businesses.

Broad spectrum of financial activities.

To meet this need, the Council advocates that concentrated efforts be made to involve more financial institutions in straight debt financing support for minority businesses.

The SBA program of loan guarantees represents a major effort to induce traditional capital sources to participate in the financing of minority businesses. This program seeks to decrease the perceived and actual riskiness of minority business loans. However, the Council feels that additional programs, including ones involving tax credits and other incentives, will be necessary to attract needed capital to minority businesses.

We propose that the following specific program be used to implement the recommendation. A FNMA-type secondary market for guaranteed minority business loans should be established that would be open to a broad range of investors.[58] The procedure involved would be similar to that described above in the discussion of venture capital. It would serve to link long- and short-term lenders to the financing needs of minority businesses.

Attracting the investor.

The Council strongly endorses the Administration proposal before Congress (S. 4316 and H.R. 16644) which seeks to "extend guarantees to banks or other lending institutions or to persons or organizations not normally engaged in lending activity, without requiring that advance approval be obtained from the Administration for each of the related loans." [59] We also support the provision for post-audit reviews of such loans to ensure conformity with guarantee regulations, as set forth in the bills.

Extension of guarantees.

Under current programs, the federal government has the means to increase quickly the flow of funds to minority businesses. This can take the form of either direct or indirect action, as, for example, raising the limits on its loans and guarantees programs, as follows:

	New Level	*Previous Level*
Equal Opportunity Loan (EOL)	$100,000	$ 25,000
Local Development Corporation (LDC)	$500,000	$350,000
7(a) Program—direct loans	$500,000	$350,000
—guarantees	$1,000,000	$350,000

The attraction of guaranteed loans will be increased greatly if there is a provision for a substantial reimbursement of losses. This can be accomplished by providing to pay losses on guaranteed loans within thirty days.

Provision for unusual costs.

Lending institutions should be encouraged to provide extra services for minority loans if necessary. The federal government could encourage this by providing, on the basis of a pre-determined schedule, reimbursement for costs arising from un-

[58] This corporation would have the broad authority and mandate of OFC's experimental Community Development Discount unit to warehouse and provide a secondary market for other obligations generated by the endeavors of low-income people, such as (1) notes and bonds held by CDC's, (2) rural and urban low-income cooperatives, and (3) by limited income credit unions.

[59] See S. 4316 and H.R. 16644, Section 101 (2).

usual loan processing, delinquency servicing, and matching of loan amortization to business cash flows.[60] The reimbursement could be administered by the new Agency for Expanded Ownership.

The federal government should extend guarantees on trade credit for minority businessmen in the same manner as it does for direct business loans. It is recognized that the failure to secure trade credit directly influences the need for direct loans by business. A greater use of trade credit would reduce the need to use cash to finance such activities as inventory build-up. Through the use of such guarantees, the government can tap suppliers as capital sources for minority businessmen.

Difficulties in securing bonding.

Construction work is not realistically available to unbonded minority contractors. The relative absence of minorities in contracting work has prevented them from establishing a broad performance record, making it difficult for them to attract underwriters of bonds. Where bonding has been available, it has usually been so expensive as to be beyond the reach of the small minority contractors.

Minority contractors must be enabled to secure bonding at reasonable costs if they are to compete effectively with other contractors. Substantial federal participation will undoubtedly be necessary in the solution of the problem. Therefore, the Council recommends that contract bonding be made more available to minority contractors.[61]

To implement this recommendation, the federal government will need to establish a program of guarantees, reinsurance, or indemnification that would encourage issuance of bonds by surety companies to small minority-owned contractors. The Council also recommends that federal and state agencies involved in financing private construction consider administrative action establishing a contract price level, below which bonding would not be required.

Insurance protection must be subsidized if necessary.

High crime rates in ghetto areas, criminal extortion, and social disturbances have made insurance coverage either unavailable or prohibitively expensive for the minority businessman. General lack of adequate insurance protection in the ghetto has been directly translated into increased costs of doing business. It also makes other financing harder to draw in, further contributing to the marginal nature of minority businesses. Minority entrepreneurs, too, hesitate to invest their meager savings and time in a business venture in these areas. They feel beaten before they even begin, especially when they are unable to get insurance. It becomes increasingly apparent that a reasonably priced insurance plan for minority businessmen in low income areas is more and more a necessity. Thus, the Council recommends that adequate insurance protection be made available at reasonable cost to minority businessmen.

As a step in this direction, the federal government should increase the coverage of the FAIR (Fair access to insurance requirements) plan to all states with substantial minority populations and provide subsidies and incentives to induce greater coverage for fire and theft insurance. The federal government should also guarantee riot insurance losses.

The FAIR plan was specifically designed to cover areas which have not been able to obtain property insurance and deals directly with losses due to civil disorders. The plan proposes that excessive costs, due to social ills, be dealt with through reinsurance agreements between insurance companies and the federal government.

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[60] The Council thus supports the President's Congressional Message which dealt with improving the prospects of small business, of March 23, 1970. It proposed the use of incentives for lenders who bear the burden of unusual processing costs for smaller, higher risk loans.

[61] The Council strongly endorses Title III, Section 410, of S. 4316 and H.R. 16644, which provides for government guarantees of up to 90 percent for sureties on bonds up to $500,000.

SUMMARY OF RECOMMENDATIONS

To sum up.

1. To promote the development of minority-controlled capital institutions, the Council recommends that private and public sectors participate actively in an effort to generate $100 million in new deposits in minority-owned banks.

2. In addition, the Council recommends the implementation of the following proposals for increasing the availability of long-term debt and equity financing to minority business: the OFC concept should be expanded as an experimental and demonstration program; third-party equity investments in minority enterprise should be guaranteed up to 75 percent by the federal government; and states with a significant minority population should provide matching funds for MESBIC investments.

3. Further, the SBA should provide six-to-one matching funds for MESBIC's capitalized at one million dollars or more and increase the matching fund limit to $20 million. The government should also encourage larger MESBIC's to pool their funds and to have their programs managed and coordinated through the local level delivery office.

4. The Council recommends that direct government subsidies and grants be provided to corporations investing in MESBIC's capitalized at $300,000 or more, to cover the operating costs for the first five years of operation.

5. To increase the availability of debt financing to minority firms, the federal government should create a secondary market for guaranteed minority loans,[62] raise the SBA limits on loans and guarantees, and "extend guarantees to other lending institutions or to persons or organizations not normally engaged in lending activity, without requiring that advance approval be obtained from the administration for each of the related loans." [63] The government should also provide a more suitable settlement on losses for EDA or SBA guaranteed loans, provide subsidies for any unusual costs in processing minority loans,[64] and guarantee the extension of trade credit.

6. The Advisory Council recommends that all necessary steps be taken to increase minority ownership and community-organization participation in financial institutions such as commercial banks, savings and loan associations, mutual and investment banks, and insurance companies.

7. The federal government should establish a program of guarantees, reinsurance, or indemnification that would encourage issuance of bonds by surety companies to small minority contractors.[65]

8. The federal government should expand the coverage of the FAIR plan to all states with substantial minority populations and provide incentives and guarantees to induce greater participation in fire, theft, and riot insurance plans.

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[62] The organization which implements this recommendation should have broad authorities similar to the concept described in Appendix D.

[63] S. 4316 and H.R. 16644, Title I, Section 101 (2).

[64] The Council thus supports the President's Congressional Message on Improving the Prospects of Small Business of March 23, 1970. See footnote 58, page 49, this section.

[65] The Council supports Title III, Section 301 (4) of S. 4316 and H.R. 16644 (pending) which provides up to a 90-percent guarantee for sureties on bid bonds, payment bonds, or performance bonds not exceeding $500,000.

MANAGEMENT AND TECHNICAL ASSISTANCE

Predictable reasons for failure.

The need for extensive management and technical assistance is not unique to minority business, but it is indeed critical to the survival of any small business. However, the health of minority businesses tends to be more precarious due to the extensive managerial and technical deficits characteristic of minority entrepreneurs. In general, these deficits stem from a lack of formal business training. Other causative factors include the absence of an enduring entrepreneurial tradition, failure to find meaningful managerial employment, the typical undercapitalization of minority businesses, which leaves less room for error and little or no money for necessary assistance, as well as the unavailability of self-help aids for the minority businessman who seeks to develop his business skills.

These are broad areas, but they encompass very real weaknesses. For example, in the area of formal business training, consider the following statistics. In the years since the inception of graduate business education in this country (1908-1969), less than six hundred minority group members have received graduate business degrees. Of these, 346 were graduates of the Atlanta University School of Business Administration. In 1969-70, there were approximately two thousand Ph.D. and D.B.A. candidates enrolled in U.S. schools of business but only about 30 of these represented minority groups. There are less than one hundred minority persons holding doctorates in business or economics. In 1969-70, there were approximately 23,000 M.B.A. candidates enrolled at U.S. schools of business but less than six hundred were minority group members (about four thousand would be needed to reach present parity).[66] There are about 100,000 certified public accountants in the U.S. but only 136 are black.[67]

Gloomy forecast for the future.

The number of graduates in formal business training determines the ultimate supply and competence of minority businessmen and managers. This is one of the earliest indicators of the future representation of minorities in business careers as proprietors and managers.

Crying need for professional assistance.

The lack of entrepreneurs is manifest. Estimates place the representation of all minorities (17 percent of the population) in business at between 1 and 3 percent, concentrated in retail trade (46 percent) and personal services (22 percent).[68] These businesses are typically undercapitalized, low sales volume enterprises.[69] They lack financial reserves for professional assistance in solving difficult managerial and technical problems as they arise. All the burdens fall on the owner-manager.

The situation is much the same as that already documented in other crucial areas. While in 1967 non-whites accounted for 17 percent of the population, ". . . in the category of 'managers, officials of business and proprietors,' they comprise(d) only 2.7 percent representation and the meager total of 209,000. Whites in the same category total(ed) 7,286,000."[70] Another important indicator of minority representation in management is the very small number of minority persons who sit on the boards of directors of the major corporations. Of the total membership of all the boards of directors of the Fortune Five Hundred companies, less than two-tenths of one percent (0.2%) are minority group members.[71]

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[66] Data from joint Northwestern University-Atlanta University Research Project, summer 1970.

[67] Bert Mitchell, "The Black Minority in the C.P.A. Profession," *The Journal of Accountancy*, October 1969, pp. 41–48.

[68] See U.S. Small Business Administration, Office of Planning, Research, and Analysis, *Distribution of Minority-Owned Businesses*, unpublished report Washington, D.C.: SBA, June 1969), p. 10; and Flournoy A. Coles, Jr., *An Analysis of Black Entrepreneurship in Seven Urban Areas* (Washington, D.C.: National Business League, 1969).

[69] SBA Study, *ibid.*, p. 11.

[70] Howard J. Samuels, "Compensatory Capitalism," in *Black Economic Development*, W. F. Haddad and G. D. Pugh (eds.) (Englewood Cliffs, N.J.: Prentice-Hall, 1969), p. 62.

[71] Northwestern University-Atlanta University Research Project, *op.cit.*

Since the absence of opportunities in business management and ownership has discouraged the serious consideration of a business career by minorities, this attitude will have to be altered if participation by minorities is to be realized to any significant degree.

Attitudes must be changed.

To this end, we recommend that extensive efforts be undertaken to communicate the opportunities available in business to minorities.

That media, especially television, make a conscious effort to portray minorities in business and management roles and emphasize successes of minority businessmen.

Failures of past business assistance efforts suggest that new approaches are necessary. With federal assistance, minority businesses can develop internal assistance programs. Thus, each minority enterprise loan should include a training cost override to assure that each new venture, as it matures to self-sufficiency, will have properly trained personnel to carry the business beyond its initial stages. Such training opportunities will also serve to attract minority youth into business.

It is proposed that the full range of purchasable management and technical assistance be made available to minority businessmen through business loans and federally guaranteed equity investments which carry with them a specified credit for the purchase of such aid.[72] The federal government, of course, does not intend to duplicate the highly developed network of business assistance resources that already exists, but it can provide the economic incentives needed to call forth a major effort.

Making aid available.

It is recommended, therefore, that the federal government provide resources to allow minority businessmen to purchase the full range of managerial and technical assistance available in the public and private sectors.

Deficiencies in business education have particularly disturbing implications in the long run. Weaknesses in education compound other disadvantages many times over. Few would argue that a potential entrepreneur needs generalized business training as critically as a managerial or technical candidate.

The minority population has long been disadvantaged because of the inequities that have existed in all aspects of our education system, including the area of business training. A significant effort will have to go into rectifying the situation, particularly in regard to the production of minority managers and entrepreneurs. Nor is it possible to overlook the plight of the existing minority businessman who would profit from the upgrading of his skills.

Upgrading of skills.

Thus, the Council recommends that the full range of opportunities for formal business education be made available to minority group members. This can only be achieved through a concerted effort to increase the representation of minority group members in existing business educational institutions, the strengthening of expanded educational facilities and programs at such institutions, and the employment of a positive recruitment program with provision for financial assistance. Local support should be fostered so that existing minority businessmen can benefit from needed formal training. The following proposals have been designed to further these goals.

Since financing business education has traditionally been particularly difficult for minority group individuals, the Council proposes to remove this obstacle by suggesting that federal and state governments, in cooperation with schools of management and business administration, businesses and foundations, establish "minority enterprise" fellowships and loans for formal business training of minority students.[73] Such programs should be of sufficient scope to ensure a maximum increase in the number of minority group member graduates at both graduate and undergraduate levels.

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[72] The Council has recommended that $170 million be provided for management and technical assistance.

[73] The Council thus strongly endorses Title I, Section 102 (b), (7), of H.R. 16644 which provides for ". . . payment of all or part of the costs, including tuition, of the participation of socially or economically disadvantaged persons in courses and training programs for the development of skills relating to any aspect of business management". Specifically, the Council recommends allocation of 160 million dollars over the first three years of the program for this use.

Establish minority fellowships.

That minority colleges, particularly the existing black colleges and the developing Spanish-surname and American Indian-oriented colleges, be encouraged through government financial subsidies and incentives to play a central role in any minority business development program.

That existing institutions, both predominantly minority and non-minority business schools, be encouraged to engage in cooperative efforts to develop curricula and teaching resources for participating schools.

That the federal government encourage, through the use of subsidies, grants, loans and other kinds of incentives, the development of business training and curricula directed toward the minority communities at the high school level, in community colleges, vocational schools, and undergraduate colleges and graduate schools. Special emphasis should fall on practical business skills. Increased financial incentives should also be allocated for recruitment and placement of full-time and part-time students in business and management positions.

Support of community-oriented education.

In line with our full support of community-oriented educational institutions, we propose that pilot programs be set up within the next year at a representative number of graduate schools of business and management that would provide technical assistance to small community colleges in the development of local minority business programs and curricula. Achievement motivation training should be considered a vital part of any business training program.

To encourage wider participation of faculty and students in minority enterprise programs, we recommend that business schools through the nation establish intern programs that would provide for involvement of faculty and graduate students at all levels of policy formulation and in the development of government-implemented minority enterprise programs.

That support be given community development corporations through the extension of federal government loan forgiveness incentives to both minority and majority background university graduates for time spent working for these corporations.

The Council encourages greater participation by minority businessmen in executive development programs and propose that a Nieman-type fellowship program be developed to enable successful minority businessmen to spend a substantial time away from their businesses (both learning and teaching) at majority or minority universities.

Federal/State matching of funds.

Title I of the Higher Education Act of 1965 was enacted to assist in dealing with the complex problems of urban America. It is modeled after the Agriculture Extension Services program, which has helped to reshape the rural life and economy of the country. The act provides for joint state-federal authority and the matching of funds at a ratio of one to two. Unlike its model, it does not allocate primary authority within a state to any one land grant school but seeks to involve all institutions of higher education. State agencies administer the program which has now been in existence for four years.

Funding was initially authorized at $50 million annually. Despite the fact that only about $10 million has thus far been appropriated annually, the National Advisory Council on Extension and Continuing Education feels that the program has proved a significant factor in community service and outreach programs.[74]

The Council feels that this program could serve as a model for providing management and technical assistance. Therefore, the Council recommends that the program be expanded with a portion of the management and technical assistance funds recommended in this report channeled through this program.

Volunteers not total answer.

The commitments of professional volunteers to aid minority businessmen should be encouraged as they have valuable contributions to make in this area. The Council strongly believes, however, that such volunteer assistance can be used to maximum effect *only* in conjunction with a paid professional staff.

In fact, securing management and technical assistance for minority enterprise should be the responsibility of a full-time paid professional staff. Such relationships are likely to be more dependable than those involving volunteers.

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[74] National Advisory Council on Extension and Continuing Education, *Higher Education and Community Service,* (Washington, D.C: OE, March, 1969), Third Annual Report.

In addition, it is felt that a paid staff would tend to establish a more businesslike atmosphere and provide a continuing relationship with the client.

The Advisory Council commends the participation by such professional groups as bar associations, and trade and industry groups, encouraging their efforts to develop programs for the provision of their service to minority businesses at minimal charges.

"How to" manuals a practical aid.

As technical assistance is an area of great deficiency, there is much that can be done to remedy the situation. Business, industry, trade, and professional associations can help by developing "how to" manuals which would describe basic business procedures. These manuals would be tailored to the particular characteristics and problems of the various industries, business areas, and geographical locations which represent the best potential opportunities for the minority businessmen.

The Federal Home Loan Bank Board can provide valuable aid by expanding its management assistance programs to help existing and prospective savings and loan associations in minority communities.

Time of separation from the military a time for retraining.

Each year about 900,000 men leave the military and return to civilian life.[75] About 20 percent of these are minority group members. Many of these returning servicemen have already decided to return to their former jobs or to go back to school under the GI Bill. Often a new job may have been arranged based upon skills acquired in the military.

For a number of the men returning to civilian life, however, the prospects are not so rosy: a large number have only a few years of high school and lack skills that would ensure their ready employment. The Department of Defense's Transition Program is aimed at these men. Designed to help the enlisted man who otherwise might have a difficult time getting a job after leaving the service, it focuses on the man during the final six months of his military career, supplying him with educational skills that will help him adjust to life as a civilian.

In view of the great pool of potential business talent provided by military veterans and retirees, it is urged that Project Transition be expanded to include preparation for management and business activities. The President's Advisory Council further recommends that such a program be extended to officers and that courses in management and business training be made available to potential retirees at least two years before their retirement dates.

SUMMARY OF RECOMMENDATIONS

To review.

1. The Council recommends that the federal government make accessible to minority businessmen the full range of managerial and technical assistance resources in the public and private sectors by including funding for the purchase of such assistance in loans or guaranteed equity investments as a matter of course.

2. The Council recommends that formal business education be made available to minority group members by adopting the following proposals:

   a. The establishment by federal and state governments, in cooperation with schools of management and business administration, businesses and foundations, of "minority enterprise" fellowships and loans.

   b. Recognizing the valuable role that minority colleges can play in nurturing minority enterprise, the Council recommends that the existing network of black colleges and those colleges with sizable Spanish-surname enrollments be encouraged, through financial subsidies and incentives, to play a central role in any minority business development program.

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[75] Office of the Assistant Secretary of Defense (Manpower and Reserve Affairs), *Transition Program* (Washington, D.C.: January 1969).

c. The Advisory Council recommends that business schools with minority group enrollments and non-minority business schools engage in planned cooperative programs to strengthen their mutual curricula through consultation and an interchange of faculty and students. Necessary funds should be made available by public and private sources.

d. The Council recommends that federal and state governments encourage the development of business courses at all levels of education directed toward minority communities, through the use of subsidies, grants, guarantees, loans, and other incentives.

e. It is recommended that pilot programs to aid small community colleges in curriculum development be set up within the next year at a representative number of graduate schools of business and management.

f. The Advisory Council recommends that business schools, throughout the nation, establish programs that would provide for participation by faculty and graduate students in the development of government minority enterprise programs at all levels of policy formulation. This would be similar to the established practice of law school faculty and students in the drafting of new legislation.

g. It is recommended that business schools establish programs for mid-career training for minority businessmen, after the fashion of the Nieman Fellowship Program for practicing journalists.

3. The Council strongly supports the existing outreach community education program embodied under Title I of the Higher Education Act of 1965 and recommends its continued and expanded support during the decade of the seventies.[76]

4. The Council recommends that the federal government contract with a number of national corporations each year to search out and train minority entrepreneurial talent, with the expectation that these prospective businessmen, after serving their internships, would seek to establish businesses of their own. In addition, NACMBE endorses the use of tax incentives and direct grants to encourage private-sector organizations to train socially and economically disadvantaged individuals to assume roles in management and business.[77] Likewise, the Council recommends that the federal government undertake an experimental program under which a number of the larger, more successful minority businessmen would recruit potential entrepreneurs, train them, and then spin them off on their own as they are ready.

5. Short-term programs of technical assistance should focus on existing professional, trade, and industry programs with funding support by the government, but volunteer management assistance should be utilized only in conjunction with a full-time paid professional staff.

6. The Council recommends that business, industry, trade, and professional associations develop "how to" manuals describing basic business principles.

7. The Council recommends that the Federal Home Loan Bank Board expand its management assistance programs to aid existing and prospective savings and loan associations in minority communities. A similar program is suggested for the Office of the Comptroller of the Currency that would aid existing and prospective banks.

8. In view of the great wealth of business talent provided by military veterans and retirees, it is urged that the Department of Defense's Project Transition program be expanded to include preparation for management and business activities, and that officers be included in the program.

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[76] This program has been supported at a $10 million annual budgetary rate for the last several years. It is expected that it could easily be expanded to accommodate much of the outreach training and education activities recommended here and in other sections of this report.

[77] H.R. 10644 and S. 4316, Title I, Section 102 (b) provide incentives and assistance to large firms for such training.

LEGISLATIVE/ADMINISTRATIVE

Requiring new legislation.

A portion of the Council's proposed program requires either new legislation or administrative action.[78] This section of the report is devoted to a description of the legislation and administrative action required to implement the total proposal program.

The Council has recommended speedy passage and implementation of similar legislation to the President's small business package presented in the Ninety-first Congress. The Senate passed this legislative program (S. 4316), during the Ninety-first Congress, and identical House bill, H.R. 16644, was referred to committee for action during the Ninety-second Congress. The major provisions of the legislation are as follows: Title I authorizes the Small Business Administration to participate in making loans with persons and organizations not normally engaged in lending activity, as well as with banks and other lending institutions. It also provides for payment of tuition costs for economically or socially deprived persons in courses in business and management, authorizing the SBA to provide counseling for economically or socially deprived persons seeking government assistance relating to starting or continuing a small business. The SBA is also authorized to conduct studies designed to support higher growth potential areas for small business.

Provisions of Title II.

Title II defines a minority enterprise small business investment company, or MESBIC, under the Small Business Investment Act of 1958, as a small business investment company whose investment policy is to assist only companies which are owned by socially or economically disadvantaged persons. Title II also allows such companies to be licensed by the SBA as corporations not organized for profit under state law and exempts MESBIC's from the provisions of the Small Business Investment Company statute which prevents a bank from owning as much as 50 percent of the voting stock of a SBIC. This title also permits SBIC's to participate one hundred percent on a deferred basis with other lenders in loans to small businesses and allows SBIC's to finance unincorporated as well as incorporated businesses.

Technical assistance and counseling.

Title III provides for Surety Bond Assistance and for technical assistance and counseling for small construction contractors. This title also authorizes the SBA to fix a uniform annual fee for any guarantee issued under this section and provides that the figure should be subject to periodic review to assure that the lowest amount justified by experience remains in effect. It also directs the SBA to fix a fee for the processing of applications for guarantees.

Generating a data base.

The Council has recommended that federal minority enterprise programs be reorganized and streamlined to make more effective use of resources. To that end the Council has presented three options. The first option, that of merging the Economic Development Administration, the Office of Minority Business Enterprise, and several Office of Economic Opportunity and Department of Agriculture programs with the SBA to form a new Agency for Expanded Ownership (AEO), would require the tacit approval of Congress but could be accomplished under the present powers of the president through executive order. Option two, spinning the AEO off as a quasi-public corporation, would require new legislation, as would the third option, which would place the new AEO in the Department of Commerce.

The Council has recommended as one of its principal recommendations the generation of a data base sufficient to operate and evaluate the proposed program. Additional legislation, which would go beyond Title I, Section 301 of S. 4316 would be required. This new bill would provide authority for the research and experimentation

[78] A more complete discussion of the Legislative/Administrative recommendations and the complete texts of legislation already submitted to Congress are included in Appendix F.

to establish the data base and would also provide an authorized funding level for these activities of at least 40 million dollars for the first three years of the proposed program.

The business opportunities area has recommended a substantial increase in the opportunities for minority ownership of retail/service establishments, particularly where such enterprise would generate a substantial volume of business in the community and provide a needed product or service. The implementation of this program would require passage of a bill to authorize a two-year pilot project that would expand the participation of the socially and economically disadvantaged in retail trade. This bill would provide for federal funding to retail trade associations willing to undertake a program to expand retail/service business ownership to the disadvantaged; it would also authorize the SBA to guarantee a line of credit to those retail establishments begun and sponsored under this program.

Authorizing seed capital.

The business opportunities area has also recommended the "selective" expansion of franchise opportunities. To implement this recommendation would require passage of a bill that would authorize the SBA to grant and/or loan prospective franchises part or all of the seed capital required by qualified franchise companies, with $10 million a year authorized for this purpose.

Recognizing the dearth of risk capital (equity) available to minority entrepreneurs and community organizations, the Council has recommended that a guarantee program for equity capital be established with a maximum guarantee level of 75 percent. Such a program would require passage of a measure which would provide for a federal guarantee on all equity investments made by investment banking and other sources of venture capital in the establishment of business enterprises by the socially and economically disadvantaged.

Six to one ratio for MESBIC's.

The Council has recommended that the resources available to MESBIC's be increased both in terms of federal matching funds and in the provision of a grant to cover operating costs for the first five years of operation. These recommendations would require an amendment of the Small Business Investment Act to provide that SBA may match MESBIC funds on a six to one ratio and increase the statutory ceiling to twenty million dollars. This bill would also amend the act to allow the SBA to subsidize the operating costs of corporate sponsors of larger MESBIC's (capitalized at greater than $300,000) for the first five years of operation.

Raising the ceilings.

It was the conclusion of the Advisory Council that present small business lending limits should be increased, with provision made to pay the larger costs of processing smaller higher-risk loans. To this end a number of specific amendments to the Small Business Act are required that would (a) raise the ceiling on Local Development Company Loans from $350,000 to $500,000; (b) increase the ceiling on Direct SBA Loans from $350,000 to $500,000; (c) raise the upper limit on SBA guarantee authority from $350,000 to $1,000,000; (d) furnish payment within sixty days from date of furnishing proof of loss to lenders whose loans carry an SBA guarantee; (e) provide payment, according to a fixed schedule, of unusual loan processing and servicing costs incurred by lenders; and (f) empower the SBA to guarantee trade credit extensions by suppliers to small businesses.

Correcting old disparities.

Recognizing the great disparities in opportunity that have existed for minorities in business and management education, the Advisory Council has recommended a comprehensive education program. This program would require passage of an Expanded Ownership Education Act with the following provisions: (a) full scholarship and loan aid granted to qualifying students belonging to a disadvantaged group for obtaining a M.B.A., Ph.D., or D.B.A. degree in business administration or in obtaining a four or five year university education in preparation for becoming a certi-

fied public accountant (C.P.A.); (b) federal grants made available for the development and/or expansion of business administration programs for colleges and universities in the case of student bodies drawn primarily from disadvantaged communities; (c) allocation of federal grants for colleges or universities, high schools, and trade schools applying for grants to develop a teaching program for minority group members in the areas of business and management; and (d) amendment of the National Defense Education Act to provide for a 20 percent forgiveness each year up to five years in the principal amount of the loan to each student who spends a year working for a community development corporation or similarly qualified organization.

Implementing President's Indian Program.

The Council has found that the economic plight of American Indians is particularly serious and has therefore recommended that the President's Indian development program be speedily implemented and that the Indian Development Bank Act (S. 3498) be enacted. This recommendation is judged so important that it has been included as a key building block in the proposed program.

To encourage expanded private sector participation and leadership, the Council feels that substantial incentives should be provided by the government. In the tax area, the Council suggests the following specific legislation:

A bill providing a tax credit of 250 percent of the training costs to corporations and existing businesses which show positive results in training the economically and socially disadvantaged in the area of business management;

At capital gains rates.

A bill allowing a 50 percent tax credit to corporate investors in businesses owned by the economically and socially disadvantaged with 25 percent of any gains to be taxed at capital gains rates and any losses to be allowed as a deduction from the corporate investors' earnings;

A bill setting forth tax credits to private corporations, not otherwise recipients of federal assistance in this area, which have sponsored the development of nomically and socially, disadvantaged in the area of business management; the enterprise depended upon their assistance, either in the area of capital or management;

Legislation providing tax incentive treatment to corporate and individual depositors for long term deposits placed in minority-owned banks, savings and loan institutions, and limited income credit unions.

Changes in credit union law.

To encourage wider community participation and use of credit unions, the Council recommends several changes in the present law governing the Federal Credit Union Act. This would require passage of a bill to amend the Federal Credit Union Act, in order to provide incentives for credit unions with large surpluses to invest these available funds in the securities of minority owned credit unions subject to rules and regulatons to be promulgated by the Director of Federal Credit Unions. The proposed legislation would also encourage credit unions to make longer term loans through an incentive program and provide federal deposit insurance for share deposits in a credit union.

Several changes in the present OEO Act are thought to be highly desirable:

Passage of a bill which would amend the definition of "special impact area" to increase the administrative flexibility and procure better results for the community to be aided;

Increasing loan limits.

Enactment of legislation amending the Economic Opportunity Act to increase the loan limits from $25,000 to $100,000; and

Passage of an amendment to the Economic Opportunity Act which would set up a program under which contracts would be let to existing corporations to hire

and train socially and economically disadvantaged members of minority groups who demonstrate potential as business entrereneurs and to eventually set them up in business.

The Council feels that several changes in the present authority of the EDA are required. Thus, they are recommending:

Incentives in varied forms.

Passage of a bill which would amend the EDA Enabling Act to provide incentives in the form of bonus grants and other advantages to businesses which would relocate in rural areas characterized by populations of primarily economically and socially disadvantaged persons; and

Legislation which would amend the EDA Business Development Program to allow more credit for in-kind contributions by community residents in the computation of the federal matching share grants. (42 U.S.C. 2505)

REQUIRED ADMINISTRATIVE ACTION

Encouraging the growth of minority owned banks.

A major contributor to minority economic growth is the building of a capital base. Minority owned and managed financial institutions make up an important aspect of this base. The Council therefore recommends that whatever steps are necessary be taken to foster a significantly larger number of minority owned and managed financial institutions. To that end, the Council seeks Executive action to direct all federal financial licensing agencies to (a) encourage community development organizations to participate in forming and managing these types of institutions; and (b) to direct that all financial institution licensing agencies set up special programs to aid minority institutions, such as the informal program now in operation at the Federal Home Loan Bank Board.

The Council has recommended a number of changes in the operation of the Small Business Administration to make it more responsive to the minority community and to provide for a more flexible operation. To accomplish these changes the President should issue a number of directives.

Extending the limits.

A directive advocating that the SBA change its interpretation of "reasonable period" under Section 8(a) of the Small Business Act of 1954 from the present three years to five years, enabling a small business to participate in the 8(a) program for five years; and

Further direct the administrator to provide loan terms and conditions to community-owned businesses comparable to those offered to privately-owned small businesses;

Secondary market.

A directive initiating a study of methods for establishing a secondary market for guaranteed minority loans through the creation of a FNMA-type institution that could purchase these obligations, then package and market them to institutions and investors such as insurance companies and pension funds. Legislation would be needed to implement the results of this study;

A directive to the SBA in conjunction with the Housing and Urban Development to study the expansion of the FAIR plan to all states with substantial populations of socially and economically disadvantaged persons. It would focus on inducing insurance companies to participate in fire, theft, and riot insurance plans.

The size of the government procurement program makes it a potentially important source of business for minority enterprise. To help bring this to actuality, the Council has recommended that the President issue a directive to the General Services Administration and the Department of Defense that would accomplish the following: (a) increase the GSA set-aside program to $200 million per year; and (b) establish a substantially larger set-aside program goal for the Department of Defense.

Given the paucity of data concerning the economic development process as applied to the disadvantaged, the Council feels that the OEO's newly established experimental Opportunity Funding Corporation presents a unique vehicle for collecting data. Thus, the Executive should instruct the OEO to pursue this experimental program with great vigor so that the findings may be applied to existing and future programs.

Lack of statistics.

Licenses to operate various types of business are very important in many types of enterprises. Few, if any, of these licenses have been readily available to minority group members. A directive should be sent to all federal government agencies concerned with the granting of licenses that detailed and simplified information and that counseling help be made available to every local delivery office.

The Council feels that much can be done to improve on-the-job business and management training and development opportunities. To that end a directive should be sent to all agencies to examine the extent of duplication of effort with respect to fair employment practices, the Equal Employment Opportunities Commission should be appointed as the lead agency in the inquiry and made responsible for submitting recommendations as to what specific actions and measures should be adopted to reduce the duplication of effort and to increase the effectiveness of present programs.

Utilizing the power of the president.

V. An Effective Delivery System

Getting to the people.

The President's Advisory Council on Minority Business Enterprise has spent a significant portion of its time considering ways and means of providing an effective mechanism for the delivery of the necessary capital, business opportunities, and management assistance resources to the people.

The Council concludes that a most crucial issue in any national effort to generate minority enterprise is ensuring delivery at the local level of commitments made in Washington and in corporate board rooms throughout the nation. After analyzing minority enterprise efforts in a large number of cities and rural areas, the Advisory Council concluded that a successful national effort will hinge, in large part, upon the creation of local delivery centers in cities and rural areas with significant minority populations.[1]

Federal programs in such areas as housing, social welfare, and economic development have often overlooked the all important aspect of local delivery. Frequently the major thrust of such programs has been to create another centralized agency, give it funds, devise programs interlaced with intricate administrative requirements, and wait for applicants to come knocking at the door.

Quagmire of red tape.

Such programs fail to achieve their objectives for a multitude of reasons. Potential beneficiaries of these programs, especially if they are minority members unfamiliar with the working of a bureaucracy, are often unaware of the opportunities that exist. When they do seek assistance, they are frequently shunted back and forth between governmental offices in a seemingly hopeless attempt to hurdle a course hobbled with red tape. Many give up in frustration. Others who eventually secure assistance do so only after experiencing handicapping and demeaning delays.

The Council soon concluded that if a delivery system were to be effective, the basic unit, the local center, must be initiated and organized at the local level. In addition, it would have to enjoy the support and commitment of the minority community, the private sector, and the government, acting as joint partners in a mutually sponsored endeavor. Such a coordinated effort must also afford minority enterprise with a variety of resources, and it must be capable of packaging these resources for viable business activity. It must, in effect, be capable of providing a one-stop packaging service where the community development group or individual entrepreneur can receive a total package without the necessity of going through a series of private and governmental officials to put the components together. Such a one-stop packaging system is essential in mimizing the time and frustration that has traditionally been the fate of a minority entrepreneur when he sought to obtain financial aid and technical resources.

Triumvirate of interests.

A local alliance of the government, the private sector, and the minority community should combine the local needs of federal agencies that are concerned with minority enterprise, the leaders of the local financial and business community, and leaders and experts on economic development representing the minority communities. The office of such a local alliance for minority enterprise might consist of a public-sector

[1] See National Strategies and Goals recommendations, beginning on pp. 24–26.

manager (perhaps an SBA representative or some other appropriate governmental official on detail); a private-sector manager, an executive of a local industrial firm or bank; and a minority community resource manager, an official of the local business league or of an economic development organization.[2] Each of the sector resource managers would have authority over resources in his sector.

Allocation of energies.

It is suggested that the leaders of these three sectors meet regularly as a board of directors of the local agency for minority enterprise, setting goals for minority enterprise within their perimeter of responsibility. Acting as a triumvirate, they would commit their organizations to sponsoring certain specific projects, provide for manning the local delivery system office and evaluate the success of ongoing programs.

Such a system should be structured so as to make government, the private sector, and community organizations jointly responsible for producing results. Priorities would be set locally and most of the resources (such as loans, the marketing of products or services, and management and technical assistance) committed would be local, although backed by federal guarantees, incentives, subsidies, and grants.

Adapting to the community.

Any such system would need considerable flexibility allowing for variations in local circumstances. The population of the city, the absolute and relative size of its minority communities, the degree of cooperation between the majority and minority communities, as well as the number and viability of local business development organizations—all would have to be taken into consideration in structuring the optimum local delivery system, as would the economic base of the community, its income level, and the population density and social cohesiveness of the minority communities.

Cities with large or diverse minority populations, such as New York, Chicago, and Los Angeles, probably would need several resource delivery offices, each located in a targeted minority area. New York City might, for example, have an office in central Harlem, one in Spanish Harlem, another in Bedford-Stuyvesant, and one in the Morrisania section of the Bronx. The hall mark of the delivery system within each city would be decentralization to the level best able to function most effectively within the community.

To this end, the Advisory Council has recommended that the private and public sectors, in partnership with the respective minority communities, launch a major national effort to create one hundred effective community alliances for minority enterprise over a three-year period.

Rural needs cannot be ignored.

While the majority of these community alliances for minority enterprise would be in urban areas, a significant number would be located in rural areas and on or near Indian reservations. Since a high percentage of blacks in the South, Mexican Americans in the Southwest, and American Indians throughout the nation live in rural areas, a significant rural involvement is necessary if the program is to be truly representative.

Encouragement of feedback.

This delivery system will not only link the suppliers of resources with those who will benefit, but it must remain an open system, encouraging continuing feedback from the community on their changing patterns of need. It must also consider the linkage of resources at the national and state levels for local use and provide communication between these various levels.

The development of a delivery system at the local level should contain the following steps:

(1) Consultation with community leaders in business and the professions (bar associations, urban planners, accountants, etc.); the academic community; federal, state, and local agencies; the public media; as well as community organizations and other locally important groups.

[2] See Figures 3, 4 and 5 and accompanying descriptive material, pp. 67–69 for local delivery center models.

Structuring the delivery system.

(2) Evaluation of local needs, strengths, and areas of comparative advantage.

(3) Preparation of a comprehensive plan of attack, encompassing a definition of goals and objectives, and structuring of the delivery service mechanism. It should also involve setting up a scale for determining meaningful progress which would monitor feedback from the community so that the mechanism could be constantly modified and changed so it remained responsive to the needs of the people.

(4) The establishment of a system for analyzing methods for obtaining and enforcing the commitment of resources which will need to be continued over a period of at least five years or until major deficiencies are removed. Various approaches which might be utilized include legal sanctions, moral suasion, legislative and regulatory means, the manipulation of community and media pressures, along with various incentives, guarantees and/or subsidies.

(5) Initiation of a community education program to prepare the minority and majority communities for the implementation of the program at all three levels: local, state, and federal.

(6) Establishment of a local office for providing *one-stop servicing* for minority enterprise assistance.

Relating to supply and demand.

Figure 6, page 71, illustrates how the local level delivery system should relate to the demand and supply sub-systems at the local level. The supply sub-system is the resource base of government, private, and quasi-private sectors.

The targeted recipients of these resources comprise the demand sub-system made up of minority entrepreneurs, community and quasi-public organizations, financial organizations of various types, and cooperatives.

Organizations already in existence.

The Advisory Council commends the work done by a number of national and local organizations that have been effective in creating local outreach organizations and in securing technical assistance and venture packaging facilities for minority enterprise at the community level. The local minority enterprise delivery system budget would be used in part to fund the operating costs of such local community business development organizations. In return, such outreach organizations should focus their activities so as to avoid overlap; one might concentrate on technical assistance, the other on packaging, etc. In some cities and rural areas, effective organizations are already providing a wide range of services to minority entrepreneurs, and some of these groups might be designated as the agency contracted to provide the one-stop service in a particular locality.

Catalyzing the movement.

The existing Business Advisory Committees of the U.S. Chamber of Commerce, together with the various minority community economic development groups, could be relied upon to spearhead the formation of community alliances. While the major thrust must come from the affected areas, if these local efforts are to achieve major impact, the executive branch must demonstrate initative and active involvement in the launching of the program, thus catalyzing the formation of many such community alliances. Active federal involvement will be particularly important in launching minority enterprise efforts in rural areas. Lacking both the financial resources and the cohesiveness of the cities, rural areas must depend upon significant assistance from the federal government in the initiation of such programs.

Indians require special treatment.

Programs to meet the business and economic development needs of American Indians on reservations may vary substantially from those that would best meet the needs of other rural minorities. The special status of the tribe, the existence through the tribal council of a minority-run government, and the deep attachment of the American Indian to his land are factors that will affect any Indian-oriented program. Frequently, Indian reservations are so remote that it is unrealistic to talk of signifi-

cant help from the local majority business community. Private-sector assistance in such situations will require special approaches and incentives.

Need for restructuring.

While the creation of such a network of local delivery systems would be a significant improvement on the status quo, it is the belief of the Advisory Council that such a system should not merely be grafted onto the cumbersome, inherently unworkable, centralized structure that is currently in existence. At present, the Commerce Department is in the position of having the apparent responsibility for minority enterprise without the resources to get the job done. Accordingly, the Advisory Council has recommended three options aimed at streamlining the federal business and economic development programs.[3]

The first option for reorganization.

The first option would combine the Small Business Administration, the Economic Development Administration, and the Office of Minority Business Enterprise into a single Domestic Development Administration or Agency for Expanded Ownership. (Figures 7 and 8 and Table 3) A division would be established within the new agency to process the business emanating from the local delivery centers in the one hundred target centers. The Office of Minority Business Enterprise, possibly renamed and reorganized, would service and help establish the local delivery centers.

Legislation necessary.

Several proposals, notably those of the Interracial Council on Business Opportunities and the National Alliance for Minority Enterprise, envision the establishment of a publicly-funded, privately-run national organization that would oversee the establishment of a similar agency at the local level, whose specific area of responsibility would be minority enterprise delivery systems. (Figure 8) With the membership of its board of directors drawn largely from the various minority communities and committed Anglo-white citizenry, the organization might well have more credibility in the minority communities than do existing governmental organizations. And, as a non-governmental organization, it would escape some of the burdensome administrative procedures and restrictions inherent in any federal agency. This organization would be formed by spinning off the minority enterprise division of the Agency for Expanded Ownership. However, new legislation would be required to establish such a quasi-public organization.

As Peter Drucker makes vividly clear in *The Age of Discontinuity*,[4] government is not very good at performing both policy and implementation functions. Government's role should be that of policy formulation and of creating a favorable environment for the private and independent sectors in which to perform as many of the actual implementation functions as possible.

Within Department of Commerce.

A third option would be to locate the Agency for Expanded Ownership in the Department of Commerce. (Figure 9) This would give the Secretary of Commerce responsibility for the promotion of enhanced minority enterprise. The Department could then be held accountable for results, whereas today it cannot be since it has neither the money nor the resources necessary to carry out the task.

Possible opposition.

There are several disadvantages to this option. It would require new legislation and thereby involve delays. There are no guarantees, of course, that this legislation would be forthcoming. In the past, Congress has successfully warded off several attempts to assimilate the SBA into the Department of Commerce. We can expect the same opposition to any new proposal of this sort. Secondly, some feel that there is an inconsistency in mission between the two. They argue that since the Department of Commerce is charged with promoting the interests of big business, it can hardly be expected to advance the interests of small and expanding businesses. Its organiza-

[3] See recommendation beginning on p. 27.

[4] Peter Drucker, *The Age of Discontinuity* (New York: Harper & Row, 1968).

tional problems notwithstanding, this new agency should have the benefit of inputs into domestic economic planning at the highest levels, which will require that (1) the administrator be a member of the Domestic Affairs Council; and (2) have access to the Council of Economic Advisors.

Whatever form the new agency takes, it should be equipped to confront the deep and compelling needs of minority enterprise and economic development and empowered to provide assistance in the following areas:

Areas of attack.

(1) Financing, as necessary, including equity capital, debt capital, operating capital;

(2) Management and technical assistance, which this Council recognizes as perhaps the single most important ingredient;

(3) The training and education of business and management personnel a *sine qua non* of minority business survival;

(4) Provision of adequate housing facilities for workers who are employed in the newly built industrial parks, shopping centers, and other enterprises. Construction of public works facilities (infrastructure development) is also widely recognized as crucial to the development of industrial parks and other forms of economic endeavor.

(5) Development of markets for minority business in many cases will determine success or failure, extent of participation and/or degree of growth.

(6) The provision of on-the-job training for potential managers is surely one of the most effective means of developing potential businessmen and eventually more minority businesses.

(7) Sponsoring experimental-demonstration projects as an efficient vehicle for testing new concepts and restructuring of prevailing theory;

(8) Envisioning the necessary tools and resources for the development of the expanded forms of ownership beyond the individual entrepreneur. The CDC, credit union, cooperative, and community investment corporations are examples of expanded forms.

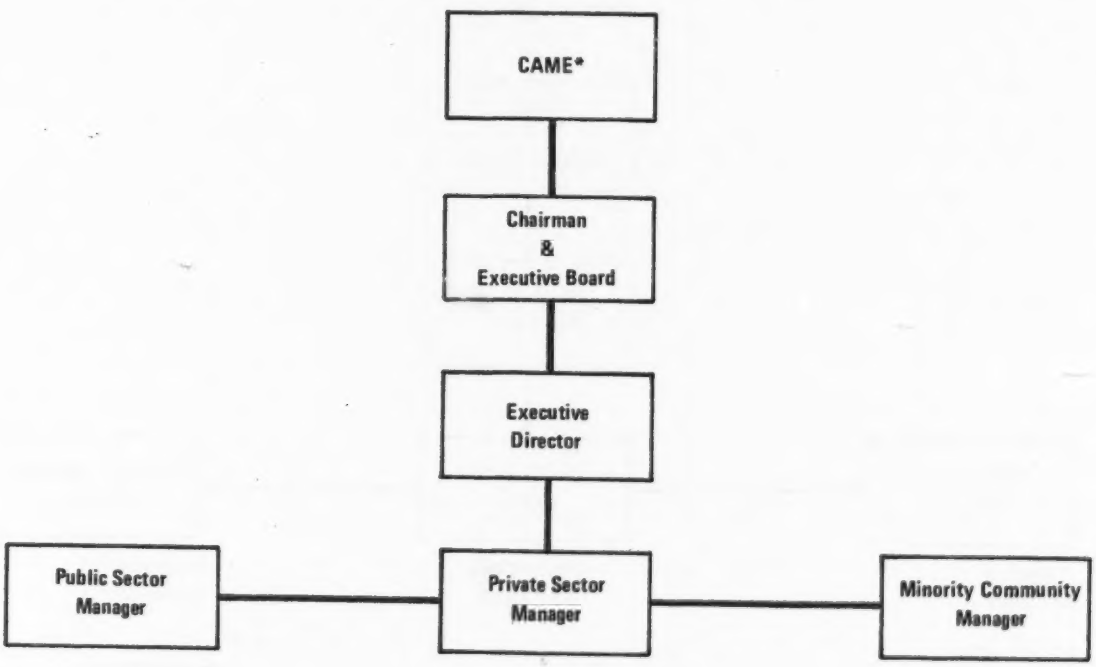
(9) Improving the character and economic development of rural life, thus slowing the continuing migration to the cities.

Allaying fears.

Whatever its administrative merits, consolidation almost always encounters considerable opposition from both within the federal bureaucracy and from various private groups. It will be necessary to allay the fears of small Anglo-white businessmen who may be expected to feel slighted in this new organization. Consequently, the funds that will be devoted to the minority enterprise delivery system and to minority enterprise generation must not come at the expense of the existing small businessman. Whatever the color of his skin, this problem can be surmounted by increasing the overall appropriations for SBA. Majority, as well as minority, small businessmen are victimized by the red tape and bureaucratic snarls of existing small business development programs. A reorganization which promises to streamline procedures for all should prove acceptable to small businessmen of all backgrounds.

LOCAL DELIVERY STRUCTURE

OPTION A - A CITY/AREA IN WHICH THERE IS NO VIABLE ORGANIZATIONAL EFFORT IN MINORITY ENTERPRISE DEVELOPMENT



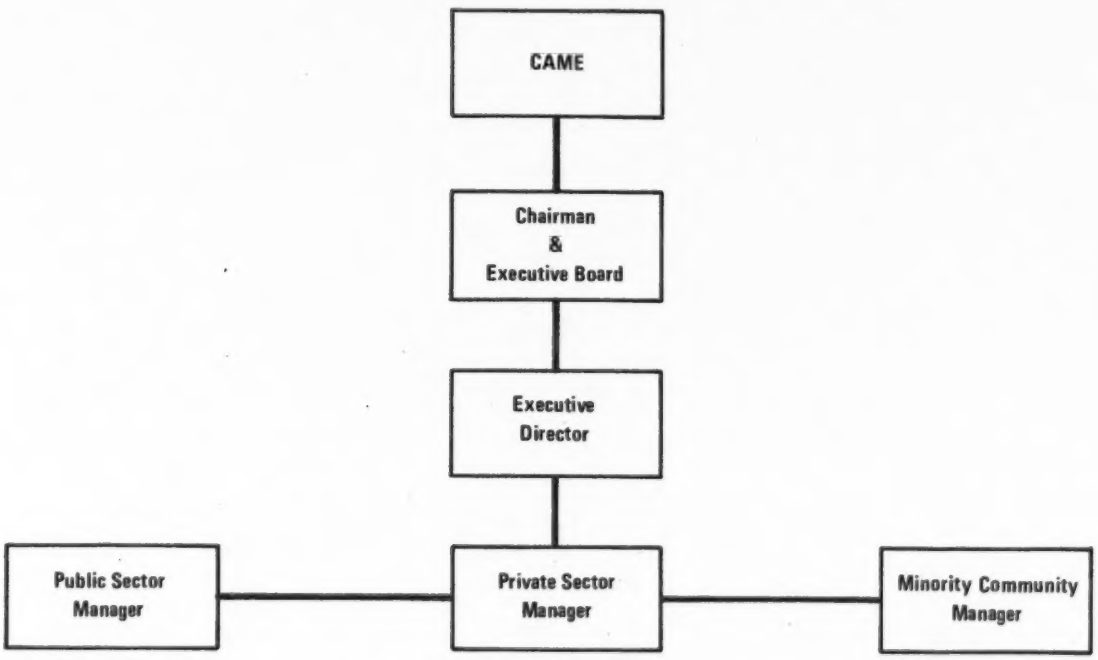
Agency Commitments	Organizational Commitments	Function
AEO Programs	Banks Clearinghouse Chamber of Commerce American Institute of CPA's National Association of Accountants National Legal Aid & Defenders Assn. Investment Bankers Association Local MESBIC's Local College and University Schools of Business Local Businesses	Recruits entrepreneurs, assists in packaging of resources. Point of first contact with entrepreneurs, etc.

*CAME - Community Alliance for Minority Enterprise

Figure 3

LOCAL DELIVERY STRUCTURE

OPTION B - WHERE THERE ARE SEVERAL LOCAL/NATIONAL ORGANIZATIONS



Any one of several arrangements could be followed here:

(1) The local organizations could be broken down into several branches.

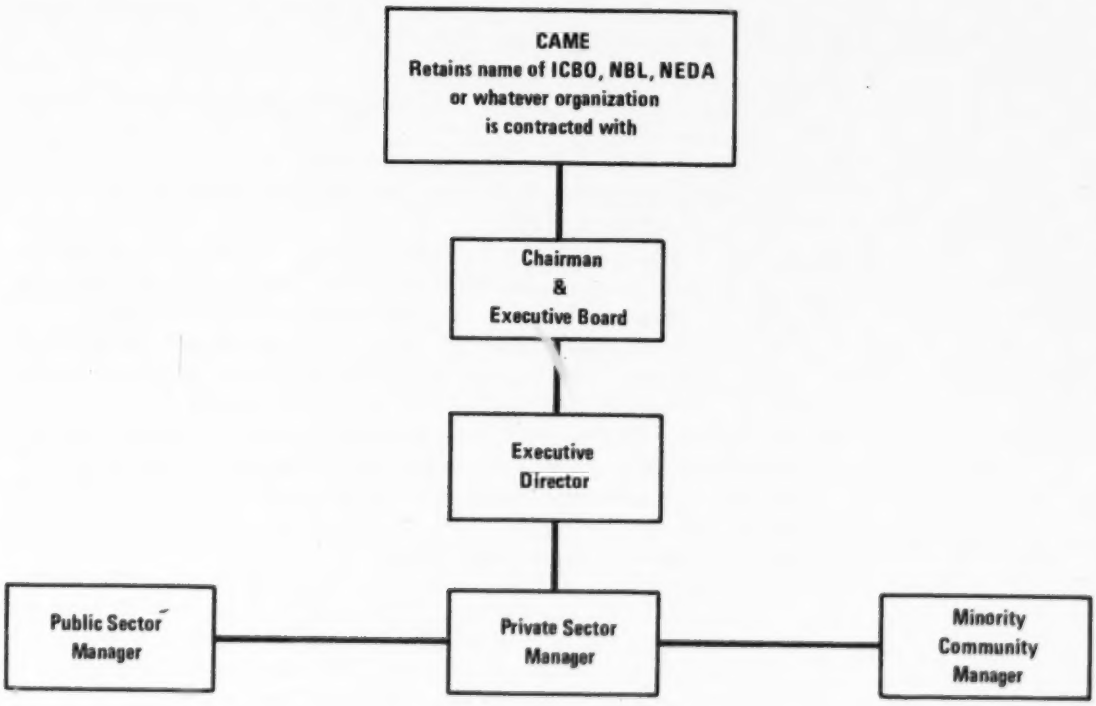
(2) They could agree to perform a specified function within the umbrella; e.g., NEDA could do financial packaging; ICBO could furnish management and technical assistance; NBL could mobilize business commitments, etc.

(3) In large cities like New York City, Los Angeles, Chicago, each could be given a demographic area to service, functioning as a one-stop center.

Figure 4

LOCAL DELIVERY STRUCTURE

OPTION C - WHERE THERE IS AN OUTSTANDING LOCAL/NATIONAL ORGANIZATION



Agency Commitments

AEO Programs

Organizational Commitments

Banks
Clearinghouse
Chamber of Commerce
American Institute of CPA's
National Association of Accountants
National Legal Aid & Defenders Assn.
Investment Bankers Association
Local College and University Schools
of Business
Local Businesses

Recruits entrepreneurs, assists in packaging of resources.
Point of first contact with entrepreneurs, etc.

Figure 5

DESCRIPTION OF A REPRESENTATIVE LOCAL DELIVERY CENTER

A. The ideal delivery structure is an organizational alliance of the public sector, private sector and minority community, with its headquarters located within the region that it serves.

B. Its objective is to serve as a one-stop packaging center of public, private and minority community resources into viable enterprises. Through its three-sector resource managers and their respective agencies/organizations, the center should be a source of (1) local business opportunities, (2) capital (debt and equity), (3) management and technical assistance, (4) economic and management education, (5) marketing assistance, etc.

C. The functions of the centers will be diverse.
   1. The center will mobilize and coordinate the resources of the three sectors at the city/area level;
   2. It will also provide a one-stop packaging facility;
   3. As an auxiliary function, it will serve as an unofficial employment agency for minority management recruits.

D. Membership will be composed of an alliance between member agencies and organizations which are represented by the head or a designated representative of the agency/organization. The staff will come largely from the community.
   1. The Executive Board will consist of a small group representative of the three-sector partnership. Their job is to give policy direction to the alliance and to exercise oversight in both commitments and follow through.
   2. The Executive Director—likely will be on loan or leave of absence from the local private sector or minority community. He should be knowledgeable in business, and preferably familiar with aspects of the three sectors. He will manage and supervise the staff.

      The plan envisions three resource managers.

      a. The Public Sector Manager should be detailed, at the expense of the government, from the SBA or successor agency (AEO), with program authority to make loans, grants, and the like. If the delivery center is serviced by a Federal coordinating agency, he should also coordinate the minority enterprise programs of the other federal agencies in that community.

      b. The Private-Sector Manager should be on loan from a local business or financial institution. In addition to his responsibility for coordinating the business opportunities, capital, management and technical assistance and marketing commitments of the local private sector, he should be the manager of the local MESBIC. In addition to concentrating the MESBIC capital, it relieves overhead, were they managed independently.

      c. The Minority Community Manager should be the "first point of contact" for prospective entrepreneurs, as he will recruit prospects from local business and industry who appear to have good entrepreneurial potential. Additionally, he should, through speeches, press statements, and the like, familiarize the community with the service and functions of the alliance office.

E. Flexibility in structure must be allowed for, particularly in cities or areas which already have minority business development programs.
   1. If the city or region has no viable program, a model should be developed and submitted for a matching federal grant.
   2. If there is a viable program, either locally developed or being directed by a national organization, such as the National Business League, the Interracial Council on Business Opportunities, National Economic Development Association, or Black Economic Union, that the organization should be contracted to provide the packaging center services.

MINORITY ENTERPRISE SYSTEM

Supply Sub-system

Federal Government Resources
- —Finance
- —Management Assistance

Private Resources
- —Finance
- —Management Assistance
- —Markets

Quasi-Private
- —Universities
- —Foundations
- —Think Tanks

State Government Resources

Local Government Resources

Experimental & Demonstration Programs
- —New Supply Components
- —Modified Supply Components

Delivery System

Comprehensive Plan—adapted local needs

Commitments of resources

Delivery System Staff

Mobilize Power Structure
- —Business
- —Local, State, and Federal Government
- —Media
- —Professions
- —Community Groups
- —Academic

Demand Sub-system

Private
- —Existing Enterprise
- —New Models

Community
- —CDC's
- —Others

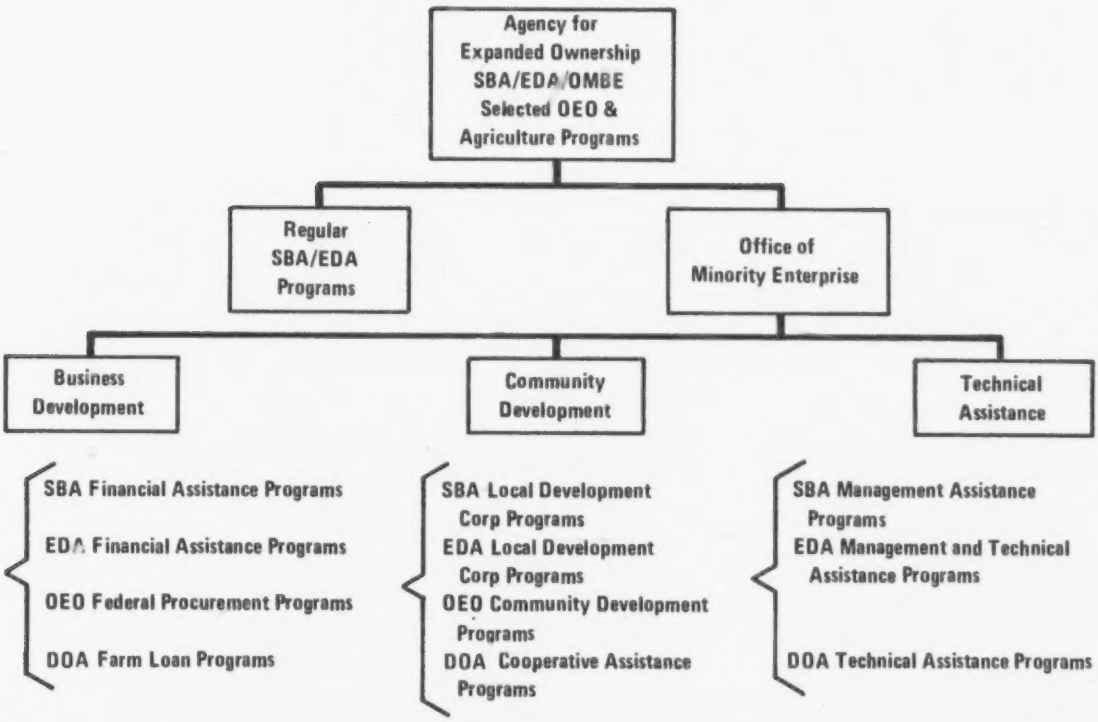
Quasi-Public (COMSAT, RAND Model)

Financial Cooperatives

Investment Criteria
- —Visibility, success, feedback potential
- —High growth, access to power
- —Spin-off potential
- —Employment, skill training
- —Capital base building potential
- —High leverage
- —Comparative market advantage
- —New career opportunities
- —Utilization of existing resources

Figure 6

OPTION 1 - AGENCY MERGER


Agency for Expanded Ownership SBA/EDA/OMBE Selected OEO & Agriculture Programs
Regular SBA/EDA Programs
Office of Minority Enterprise
Business Development
Community Development
Technical Assistance
SBA Financial Assistance Programs
EDA Financial Assistance Programs
OEO Federal Procurement Programs
DOA Farm Loan Programs
SBA Local Development Corp Programs
EDA Local Development Corp Programs
OEO Community Development Programs
DOA Cooperative Assistance Programs
SBA Management Assistance Programs
EDA Management and Technical Assistance Programs
DOA Technical Assistance Programs

ORGANIZATIONAL COMPONENTS

(1) Merger of SBA, EDA, OMBE, with SBA as survivor agency plus addition of selected OEO and Agriculture Department programs.
(2) OME as division of AEO, with control over funds and program authority
(3) Director of OME to be Assistant Administrator for Minority Enterprise

OPERATION

(1) Makes loan, grants from its allocated resources
(2) Planning policy, evaluation services national delivery network
    a. National information clearinghouse on minority enterprise
    b. Advocacy role for minority enterprise orientation, training of staff for 100 cities' system

ADVANTAGES & DISADVANTAGES

ADVANTAGES

(1) Control over program authority and resources
(2) SBA/EDA/OMBE merger can be accomplished immediately through executive order
(3) Provides essential programs necessary to accomplish mission with minimal preorganization
(4) SBA/EDA/OMBE merger, plus selected OEO and Department of Agriculture programs may be accomplished under the Reorganization Act

DISADVANTAGES

(1) Does not include other important programs in HEW, GSA, etc.
(2) Will require additional money FROM OTHER AGENCY PROGRAMS
(3) May find resistance from small business lobby

Figure 7

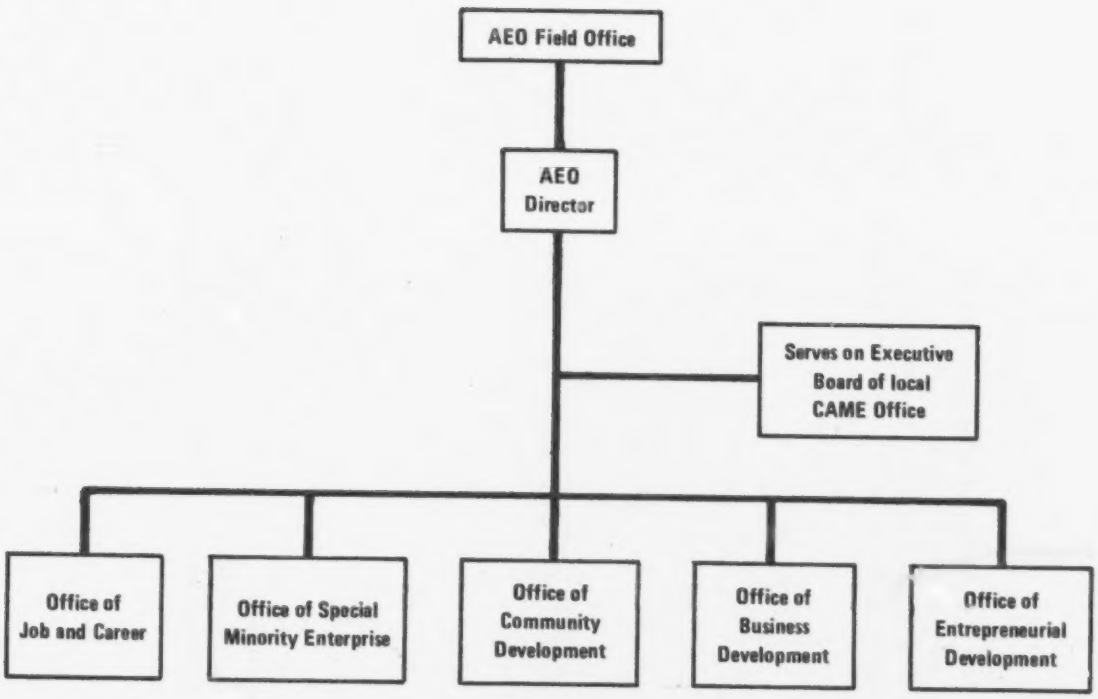
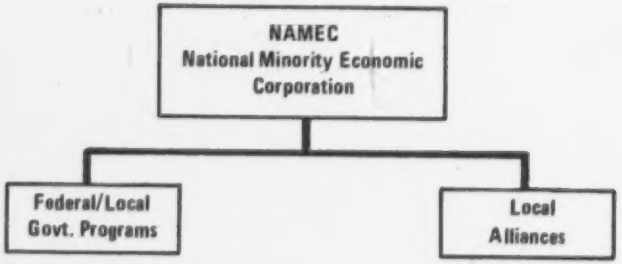

AEO Field Office
AEO Director
Serves on Executive Board of local CAME Office
Office of Job and Career
Office of Special Minority Enterprise
Office of Community Development
Office of Business Development
Office of Entrepreneurial Development

Figure 8

Table 3 – Required AEO Functions

Function	Current Jurisdiction	Expanded Potential Jurisdiction
1) Financing	SBA—EDA—Agriculture—OEO	
Equity Debt Operating		
2) Management & Technical Assistance	SBA—EDA Agriculture	
3) Education in Business Management	HEW Title I	
4) Housing	HUD—EDA	EDA
5) Procurement	SBA, GSA, DOD	SBA
6) OJT (Managerial)	Labor	EDA
7) Experiment & Demonstration	OFC—OEO	
8) Public Works	EDA	
9) CDC's Cooperatives, etc.	EDA, OEO, Agriculture	

OPTION 2 QUASI–PUBLIC CORPORATION (Publicly Funded)



ORGANIZATIONAL COMPONENTS

(1) Board of Directors consisting of tri-sector representative
(2) National Alliance Staff and Organization for servicing local alliances for minority enterprise
(3) Local Alliances for minority enterprise, tied directly to national office

OPERATIONS

(1) Privately and publicly funded, privately run national organization to oversee establishment of local minority enterprise delivery systems and to
(2) Service national delivery network
    a. Make loans, guarantee loans and make M. & T. A. grants
    b. National information clearinghouse on minority enterprise
    c. Advocacy role for minority enterprise
    d. Orientation, training of staff for 100 cities system

ADVANTAGES

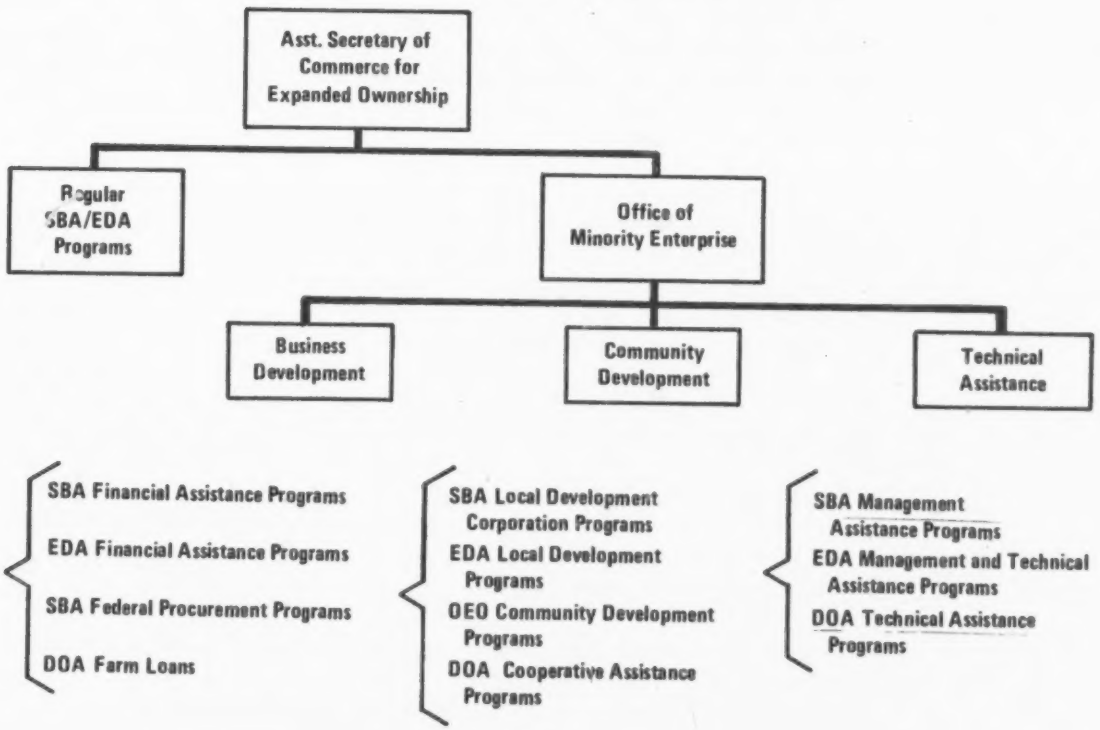
(1) Credibility among private sector, minority sector as a nongovernmental agency
(2) Freedom from bureaucratic constraints
(3) Essentially privatizes delivery of resources

DISADVANTAGES

(1) Significant congressional funding unlikely in that responsibility and credit for performance are taken from government and patronage is lost
(2) Requires legislation – thereby delays effort

Figure 9

OPTION 3 FORM AEO IN THE DEPARTMENT OF COMMERCE



ORGANIZATIONAL COMPONENTS

(1) Merger of SBA, EDA, OMBE into the Department of Commerce plus addition of selected OEO and Agriculture Department programs
(2) OME as a division of AEO, with control over funds and program authority
(3) Director of AEO to be Assistant Secretary of Commerce

OPERATION

(1) Makes loans, grants from its allocated resources
(2) Provides planning, policy evaluation and services national delivery network
    (A) National information clearinghouse on minority enterprise
    (B) Advocacy role minority enterprise orientation, training of staff for 100 cities system

ADVANTAGES AND DISADVANTAGES

ADVANTAGES

(1) Control over program authority and resources

(2) Consolidates business programs into the "business" agency (Department of Commerce)

DISADVANTAGES

(1) Requires new legislation and thus, provides a time lag in implementation
(2) Will find resistance from Small Business lobby

(3) Congressional opposition likely due to SBA merger into Commerce

Figure 10

VI. Summary

The President's Advisory Council on Minority Business Enterprise has sought to develop a blueprint for a national strategy to ensure that minorities will assume a significant role in developing, owning, and managing viable business enterprises during the decade of the seventies. Among the most apparent needs are access to training and education, capital resources, and management and technical assistance. Despite their numbers—together blacks, persons of Spanish-speaking ancestry, and American Indians make up 17 percent of the population—they control only a tiny fraction of the productive resources of the nation.

The Council feels that a major, long-term commitment of resources, energy, and imagination will be needed to correct the inequities which have existed for a number of years. Underlying this commitment are these principles: the private sector must assume the role of joint partner with the federal government; minority business should be encouraged to enter areas of higher growth potential; and the concept of "minority enterprise" should be enlarged to include a concept of "expanded ownership".

The Council's program includes over 45 separate recommendations in the five task force areas. Of these 45, 11 are considered especially crucial to the initiation of an effective minority enterprise program, and they will provide the framework within which the total set of recommendations can be implemented.

Key to the success of the program are these basic principles:

- Substantially increased ownership of economic resources must become a national priority for the decade of the seventies.
- The President's small business program should be speedily enacted and implemented.
- Management and business training will require substantially increased support by public and private sectors.
- One hundred local level delivery centers should be created over the next three years to provide a "one-stop packaging" service for the delivery of financial, management, and technical resources.
- The Council recommends that serious consideration be given to federal restructuring in a manner which will more effectively utilize federal resources.
- A federal resource commitment of $930 million, for the initial three-year period, is needed to ensure progress toward the goal of significant minority enterprise development.
- The Council recommends passage of the President's program for American Indian economic development and the passage of the American Indian Development Bank Act.
- All necessary steps should be taken to increase minority ownership and participation in financial institutions.
- A greatly increased commitment of public and private sectors will be necessary in order to develop organizations providing an opportunity for wider minority community involvement.
- The Council recommends the immediate development of an adequate data base for the implementation, operation, and evaluation of this and other minority enterprise programs.
- Further, it is recommended that there be a large increase in the use of the purchasing power of public and private sectors to strengthen existing minority enterprise and to encourage new enterprise.

VII. Comments Of Individual Council Members

A. W. P. Gullander, President, National Association of Manufacturers, to Mr. Sam Wyly, Chairman, President's Advisory Council on Minority Business Enterprise:

At the final meeting of the President's Advisory Council on Minority Business Enterprise, I expressed concern over certain aspects of the Council's report which we could not support, and indicated that I voted in favor of the adoption of the report because we approved of the basic objective.

The National Association of Manufacturers is vitally interested in promoting sound means of encouraging and assisting members of minority groups in our country to participate fully in the economic mainstream of our society. This includes as a very important element participation in entrepreneurship on a sound economic basis for the benefit of the individual involved, other members of the minority groups, and our society as a whole.

Therefore, the basic purpose of the report of the President's Advisory Council on Minority Business Enterprise, and the principal direction of its thrust, is supported by the NAM. However, the rather voluminous report as approved by the Council contains a number of proposals which we do not believe will effectively promote this objective.

We feel there is *undue* emphasis on government financial support and guaranties, and inadequate emphasis on those things which will help identify and develop those members of the minority groups who have the talent, inclination, and motivation to be successful entrepreneurs in our free economic society. The number one requirement is the development of the proper individuals, and secondary to that is the financing and other aspects of assistance they may require.

Therefore, it was our hope that greater emphasis could have been placed in this area, as well as stressing the need for increased active participation by the present business community in helping to develop embryonic entrepreneurs.

It was our feeling that there was need for greater emphasis on the requirement for gaining experience in addition to formal education, rather than the latter being a substitute for experience.

We question the advisability of establishing 100 local delivery centers at a cost of approximately $60 million until experience has been gained by the operation of one or two centers as a pilot effort, which would also have the result of testing the effectiveness of the services they attempt to render.

The typical successful entrepreneur, either minority or majority, is a man who has learned how to operate his business, usually with as much independence from the government as possible. Therefore, the heavy emphasis on government's role in developing the minority entrepreneur seems to present an inconsistency and may negate against an individual learning to stand on his own feet as an independent businessman.

We take strong exception to the proposal to provide 250% tax incentive to the business community for the training and development of minority entrepreneurs. Such a proposal does not do justice to the interest of the bulk of the white business community wishing to be of service in this area without being rewarded by bonuses from the federal government. We also question the legality of such a proposal. This item is mentioned merely as an illustration of proposals included in the report which we have difficulty in accepting as being in the best interest of the objective of the Council.

Sincerely,
W. P. Gullander

B. H. C. McClellan, Chairman of the Board, The Management Council for Merit Employment, Training and Research, to Mr. Sam Wyly:

Enclosed herewith you will find my dissenting opinion which I trust will be attached to the proposal of the Council when it is delivered to the President and to the Secretary of Commerce.

I hated to be the only dissenting vote, but my convictions are such that I simply could not vote for the proposal advanced.

H. C. McClellan
Chairman of the Board

C. H. C. McClellan to Mr. Sam Wyly:

During the meeting of the Council in the Executive Office Building on Friday, January 15, the Council approved a proposal submitted to it which is to be delivered to the President and to the Secretary of Commerce.

Those of us who disagreed with parts or all of the proposal were offered the privilege of submitting dissents or recommendations for change.

When the vote was called on the proposal, I voted against it for the following reasons:

1. Inherent in the proposal was the conclusion that the OMBE program as organized had failed to be effective. I challenge this conclusion. It is contrary to our experience in the Los Angeles area. Furthermore, there has been no comprehensive report to the Council concerning progress achieved.
2. The Council has not received the benefit of counsel from the Secretary of Commerce concerning what is proposed.
3. None of the three alternates for reorganization proposed appears to offer better chance of progress than the original OMBE concept; quite the contrary.
   To illustrate, it is proposed that there be established one hundred local delivery centers which would include under one roof the financial resources, management and technical services and other support as needed. This I find incompatible with all of the agencies involved in the effort in Los Angeles.
4. It is proposed that regardless of the alternative chosen, the budget should be $930,000,000 for a three-year program, one-third of which would be new money. I believe this to be ill-considered.
   a. Two-thirds of the above sum, according to the proposal, is to be taken away from existing departments or agencies of the government. I suggest that none of these agencies uses the money which they are to re-allocate solely for minority enterprise at the present time. Many activities are involved which may be injured.
   b. $300,000,000 of new money is a tremendous sum. I contend that an eminently satisfactory job could be done with existing funds under the original OMBE program if we simply went to work on it across the nation.

      To illustrate this I report the following:

      First, on capital development. For a solid year we have been arguing about ways of persuading businessmen to make deposits in black banks. I stated at our first meeting that if we would only go to work on it, the money would be deposited.

      At the last meeting I attended I reported that I was calling the meeting in Los Angeles to prove my point. The meeting was held. Forty corporations were represented. The meeting lasted one hour and thirty minutes. Thus far, $755,000 have been deposited and we expect an additional $750,000 from those present at the meeting within a reasonable time. More meetings are scheduled.

      Second, the delivery system. I believe we must rely upon the community organizations to identify potential entrepreneurs and to prepare financing proposals.

I believe we must rely upon the MESBIC's and the financial institutions to lend the money with the support of the Small Business Administration and other governmental agencies.

I believe it possible to organize a coordinated program represented by each of these organizations through which management consultants can be provided to enable the new enterprises to succeed. We have organized such a program in Los Angeles.

c. In the Los Angeles Area Chamber of Commerce, with our cooperation, there was conducted a Minority Opportunities Day late last year. Fifty-two minority enterprises were represented. I have just been advised that more than $4,000,000 in new business was generated. I talked to one of the black businessmen today who was there and he expects an additional major contract as a direct result.

The various government agencies, especially the Small Business Administration and the General Services Administration, are cooperating with us in Los Angeles.

I see no justification whatever for reorganizing the program. Nor do I see any justification whatever for allocating such a huge sum of money toward the program when I am confident that a fine job can be done for much less.

This is illustrated by the National Alliance of Businessmen's program which has been highly successful. The N. A. B.'s job quota for minorities is 370,000 workers. The goal will be met. The national budget for N. A. B. is $4,500,000 annually.

This program too is very successful in Los Angeles; my associate, Lawrence T. Cooper, is the Metro Director and pledges achieved here thus far total more than 48,000.

I protest the proposal in its present form. I believe there was inadequate discussion of the various provisions—there was practically none at any of the general meetings. Each of us stated our position, but there was no discussion.

While I gladly join the effort to bring remedy to the problems of the minorities and have been doing so actively for five and a half years full time. I cannot in good conscience support the proposal adopted on January 15.

H. C. McClellan
Chairman of the Board

D. Edward B. Rust, President, State Farm Insurance Company, to Mr. Sam Wyly:

I endorse the full Council Report but maintain a reservation concerning the phrasing of a portion of the insurance protection section. I recommend the deletion of the material after "Thus the Council recommends" and its replacement by the following phrasing:

"That adequate insurance protection be made available at reasonable cost to minority businessmen. The Council is aware that, as a first step in this direction, Congress has recently enacted a law providing for the direct writing of crime insurance by federal government in any state in which crime insurance is unavailable, or available only at prohibitive cost after August 1, 1971. But beyond this important step, the federal government should ensure that adequate insurance protection is available to minority businessmen wherever necessary. Basic insurance protection currently offered under existing FAIR plans should be expanded so long as adequate subsidies are provided through the medium of a total federal reinsurance program. Moreover, the federal government should continue to provide reinsurance against riot and civil commotion."

Sincerely,
Edward B. Rust

E. Arthur M. Wood, President, Sears, Roebuck and Co., to Mr. Sam Wyly:

I regret that I was unable to attend the meeting of the Council on January 15th at which the report was approved.

I am writing now to go on record as being in agreement with the general thrust of the report, although I disagree with a number of the specfiic recommendations. My participation in Council proceedings was as a member of the Executive Committee. I did not attend meetings of any of the five Task Forces, and accordingly am not informed as to the depth of research and ensuing consideration leading to the recommendations of the Task Forces.

Among the eleven principal recommendations which make up the "Framework for Action", I have a problem with No. 1 which makes minority ownership a *national* priority, since we do not relate it in reference to other issues affecting minorities which I believe are more urgent.

Under Item 2, I question whether the government should create a secondary money market for MESBIC securities.

Under Item 6, I do not have sufficient information to back the recommendation that $930 million is needed for the initial 3-year period.

Under Item 9, I question whether credit union funds should be used to finance minority enterprise.

Under Item 10, I am concerned about that phase of the President's Small Business legislative package which places emphasis on identifying rapid growth businesses for minority undertaking. These are generally high-risk businesses, with greater chance of failure.

On the affirmative side, I feel that the MESBIC concept should be supported, although I doubt the viability of 6 to 1 leverage. I agree that the Small Business Administration should have more funds to lend and should be more effective in its delivery of loans.

There is no substitute for training and experience before a man ventures into business enterprise. Accordingly I strongly favor the recommendations for bringing more minority folks into business education. Existing business firms will eagerly hire "business-educated" minority men and women, and they will have experiences in the main stream of American business which will qualify them to set off on their own as minority enterprisers. Even at that stage, technical assistance will be much needed, and here I favor a national program asking business firms and professional firms to supply this talent.

I do not agree that placing more blacks on the Board of Directors of American business firms will of itself help develop minority enterprise. The persons selected for such directorships would be themselves already successful in business, the professions or government.

The report fails to make mention of the competitive nature of the free enterprise system. A minority enterprise will have to survive competition. Viable minority enterprise cannot be provided or assured through legislative or administrative action.

Finally the report recommends that the private sector, along with the public sector, make major commitments of resources toward the development of minority enterprise. It must be remembered that the private sector is making commitments in a number of activities to improve the condition of the minorities. The principal effort is in hiring and training minority employees, but there are other commitments in urban areas which will have equal or prior claim on the resources of the private sector.

Sincerely,
Arthur M. Wood

F. Joe Kirven, President, ABCO Building Maintenance Company, to Mr. Sam Wyly:

I strongly support the findings of the President's Advisory Council on Minority Business Enterprise. The Advisory Council proposes a nearly billion dollar effort over three years to encourage the development of minority enterprise. This effort must, however, last at least four decades if America is to realize equal business opportunities for all its citizens. Americans of good will must band together to insure that our Presidents, members of Congress, state and local officials, whatever their political party, sustain this commitment over the next decade. If the private business sector takes steps to carry out this program for minority enterprise the momentum behind it can sustain this effort through the decade of the 70's.

A test of this nation's commitment to equality of opportunity will be the willingness of government, industry, and academicians to implement and sustain the Advisory Council's recommendations.

Sincerely yours,
Joe Kirven

Appendices

A. NATIONAL STRATEGIES AND GOALS

B. BUSINESS OPPORTUNITIES

C. EXPANDED OWNERSHIP

D. FINANCE

E. MANAGEMENT AND TECHNICAL ASSISTANCE

F. LEGISLATIVE/ADMINISTRATIVE

(See Volume II for Appendices)

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